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## **Culture, Institutions, and Economic Growth: A Comparative Study of Korea and Thailand**

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### **I Statement of the Problem**

This is a sequel to the comparative study of the Philippines and Thailand, which was published as *The Nation and Economic Growth: the Philippines and Thailand* (Kuala Lumpur, Oxford University Press, 1994). This earlier study examined the problem of why the Philippines, which enjoyed twice as high income as Thailand in the early 1950s, fell behind Thailand in the following years and had less than half the income of Thailand four decades later. The answer offered was largely institutional. The Philippine government, which had been functioning relatively well for some time after independence thanks to American tutelage during the colonial period, began malfunctioning and could not maintain, or in some cases lost, the ability to provide the public goods the market economy needed. Yet, the Philippine government intervened in the economy and, as a consequence, messed it up. On the other hand, the Thai government improved its performance in providing public goods, but did not intervene in the market economy much (at least, not as extensively as the Philippine government), having learned the difficulties functional diversification would pose from its past experience of self-rule.

The comparison of the Philippines and Thailand was a comparison of a country whose economy stagnated with a country whose economy improved over time. In this study, however, two model countries of development are compared. Both Korea and Thailand were among the top countries in the world in terms of economic growth in the period 1965-1990 [World Bank (1992)]. The question posed in this paper is why Korea grew faster than Thailand. In the 25-year period, Korean per capita GNP grew at the rate of 7.1 percent per annum, whereas that of Thailand grew at 4.4 percent.

As shown in Fig. 1, until the late 1960s, it was Thailand that enjoyed the higher income. This was not because Korea was still suffering from the devastation of the Korean War of the early 1950s. By the late 1950s, income had reached the prewar level and the reconstruction period was over. One might argue that Thailand developed in the decade while Korea was trying to make up for the lost time, but the decade was not a good period

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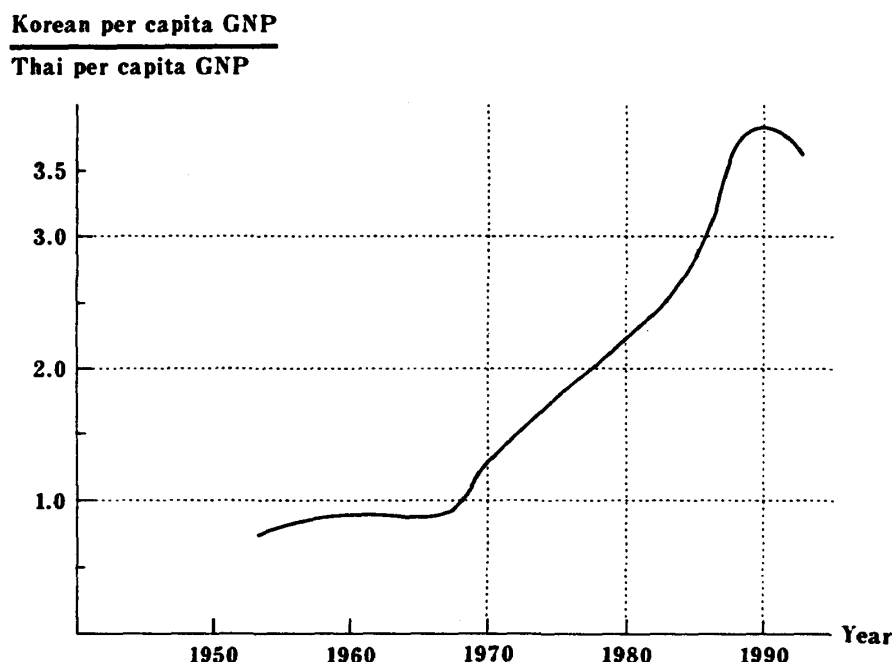


Fig. 1 Per Capita GNP: Korea vs. Thailand

in terms of economic growth for Thailand, either. Both economies still depended heavily on agriculture. At this stage, Thailand had an advantage over Korea because of its climate and the availability of land. It was after industrialization began that Korea's income caught up with Thailand's and surpassed it. As seen from Fig. 1, the ratio of Korean income to Thai had reached 2 by the end of the 1970s, 3 by the mid-1980s, and was hovering a little above 3.5 around 1990. Korea's rapid growth is often referred to as "the Miracle of the Han River" (the Han River flows through Seoul).

Many criticisms have been raised against a growth-based approach to economic development. One is that a country with higher economic growth has more unequal income distribution. This criticism, however, does not apply to the case of Korea and Thailand. Throughout the period, the Gini coefficients, which measure the degree of inequity in household income distribution, were mostly in the low to mid 0.30s in the period 1960-1990 for Korea (with no increasing trend), but in the 0.40s for Thailand. That is, despite higher economic growth, Korea enjoyed more equal income distribution than Thailand.

Korea also fares better than Thailand in the human development index of the United Nations, which, besides income, takes into account life expectancy at birth, adult literacy, and years of schooling. According to the 1994 report, Korea ranked 32nd in the world, with an index of 0.859, which was higher than the 0.798 of Thailand, which ranked 54th [United Nations 1994]. If other factors were to be taken into account, its conclusion may differ; but at present, such factors are difficult to quantify and there are no other widely accepted indexes of development. Income is not the only determinant of human welfare, to

be sure, but Korea's better performance is not confined to economic growth alone.

## II Government Intervention vs. *Laissez Faire*

The libertarians argue that government intervention in the economy reduces the economic potential of a country. From their perspective, Korea's better economic performance must have been due to less government intervention; but most of those who have been observing East Asian economies believe that the Korean government intervened in the economy more extensively than the Thai government. True, the level of government intervention changed over time, and there is no index of the overall degree of government intervention. However, in the following areas—those in which government intervention is often observed to have been harmful in developing countries—comparison can be made for the period of high growth (since the early 1960s for both Korea and Thailand).

### a) *Import Control*

Thailand restricted imports to protect domestic industries. For example, imports of new and used cars were banned to protect the car assembly industry; imports of construction materials (steel bars and cement), sugar, silverware for hotels, sanitary ware, animal feeds, and a number of agricultural and food products were restricted. But the number of imports under restriction was much smaller than in Korea. In 1980, for example, the percentage of import goods restricted was just a few percent.<sup>1)</sup> I do not have a percentage figure for earlier years, but it is generally believed that the Thai government did not much resort to import control.

In Korea, import control rose in the early 1960s, and for about ten years from the mid-1960s, the import liberalization ratio (the proportion of imported products requiring no import permits) stood at 50 percent [Ohm 1992: 93]. Since then, the Korean government has been pushing import liberalization. The ratio had risen to 70 percent by the early 1980s, 90 percent by the mid-1980s, and 95 percent by 1990 [Sakong 1993: 88].

This is not, however, the whole story of Korean import control. While the Korean government was pushing import liberalization, it retained the control of imports from Japan. As recently as 1990, imports of about 250 goods from Japan were banned, and another 490 goods were discouraged. Among the first group were autos, TV sets, video cameras, and various electric appliances. The Korean government's justification was that the country should not import goods from a country which was causing large trade deficits. Thailand has also had the same problem, but the Thai government has not resorted to such

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1) Less than 5 percent according to a World Bank study (quoted in Dohner and Intal [1989: 574]). In 1989, there were only 75 items subject to import restriction, out of 4,000 import items. The percentage was less than 2 that year. See Narongchai *et al.* [1991: 15].

discriminatory practice.

Only license-holders were permitted to import goods into Korea. For a long time, Japanese trading companies could not engage directly in foreign trade and even when some of them received licenses in February 1993, these were only to export goods from Korea. Another restrictive measure was minimum export requirements for importers. Korea had been suffering from deficits in the current account in the balance of payments until around 1978, and the government put pressure on importers to earn at least part of the foreign exchange they were using.

The Korean government resorted to many other restrictive measures. As will be discussed in Section 5, the Korean bureaucracy is given a fairly wide discretion to act against importers or consumers of import goods. The government can, for example, threaten users of conspicuous foreign goods with tax investigation. As a result, foreign shares of the markets the government chooses to protect are small. For example, in 1994, only about 4,000 foreign cars were sold—0.25 percent of the 1.6 million cars sold in the country. This was after Korea lowered import tariffs on cars (to about 10 percent) in response to mounting pressure from American and European car makers. Also, in recent years, a rash of disputes has arisen between Korea and the United States as the Korean government has tried to replace American high-tech products (such as telecommunications equipment) with Korean products, which have improved in competitiveness. It is generally believed that Korea has been the most protected market among the industrializing countries.

In contrast, the Thai government used tariffs as the major instrument of import control. Since there are numerous goods and tariff rates vary from one to another, comparison of tariff rates is difficult. Certainly, Thai tariff rates have not been low on many goods, but there have been fewer complaints about Thailand among foreign exporters than about Korea. Compared with Korea, the Thai tariff rate did not seem particularly high, at least not high enough to offset low non-tariff barriers.

#### b) *Financial Repression*

Both Korean and Thai governments intervened in the financial market. In the case of Korea, government intervention is reflected in a wide gap in the rate of interest between the organized and unorganized (called “curb”) financial markets. For example, in 1963, the lending rate was 15.7 percent per annum if money could be borrowed from a bank, but in the curb market, it was 52.6 percent. The difference increased to almost four times in 1964. In the following years, the difference narrowed to two times, but as late as the early 1990s, it still stood at roughly that level [*ibid.*: 34]. It is generally believed that the bank rates of interest were set below the equilibrium rates and those who could not borrow from the banks met their requirements in the curb market.

Although an informal market existed in Thailand, it seems to have been less important than in Korea, because the interest spread seems to have been smaller. In the mid-1970s,

when the lending rate of commercial banks was around 13 percent, the rates of private lenders were mostly less than 20 percent.<sup>2)</sup> Unlike Korea, the government did not control finance companies strictly (as it did commercial banks), and in the 1970s, a large number of finance companies were born. In a way, they bridged the gap between the banking sector and the informal market, and reduced the importance of the latter. In Korea, one often hears about *kye* [a voluntary credit association], but in Thailand, one does not hear much about its counterpart *chae*. Friends sometimes get together and form *chae*, but it does not seem to be too common. Since it involves time as well as risk, most people seem to prefer to take money to banks or finance companies (or invest in the stock market in recent years).

At least in one respect, the Korean government was more involved in the financial market than the Thai government. While the Thai government influenced the rates of interest, it did not get involved in who could borrow low-interest loans from banks; on the other hand, the Korean government did get very much involved. This was facilitated by the fact that as will be discussed below, commercial and development banks were under government control in Korea.

There is one readily available set of data which supports the thesis that the Korean government has suppressed the financial market more than the Thai government. In the 1970s, the difference in the real rates of interest (nominal rate—rate of inflation) between deposit and lending was 1.2 percent for Korea, and 6.9 percent for Thailand, and in the 1980s, 0.4 percent for Korea and 5.5 percent for Thailand.<sup>3)</sup> That is, in both decades, the interest spread in real terms was bigger in Thailand than in Korea. This may be due to greater efficiency in the banking sector of Korea, but a more likely explanation is that banking activities were suppressed more severely in Korea. This must have affected the dynamism of Korean banks.

### c) *The Public Enterprise Sector*

The Korean government, considering the banking sector as a strategic industry for its development goals, nationalized all commercial banks in 1961. In addition, it set up such specialized banks as Korea Exchange Bank, Korea Development Bank, Export-Import Bank of Korea, and Korea Long-Term Credit Bank. The government no longer owns commercial banks, but privatization did not begin until the early 1980s, and the government still exerts a strong influence on credit allocation.

The Korean government also went into industrial ventures aggressively, especially in

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2) A 1977 study by Somsadki Tambunlertchai *et al.*, cited in Saroj Ansumalin, "Finance and Credit in Provincial Industrial Development," [in Thai], April 1990, p. 31. The lending rates are given by source and size of borrowers. The five sources are a) relatives and friends, b) commercial banks, c) finance companies, d) *chae*, and e) others. If the last category is money lenders, the average rate of interest is 19.0 percent, only 1.4 times higher than the average rate of commercial banks.

3) Computed from ADB [various years].

the late 1960s and 1970s. It went into capital-intensive areas since, though they needed to be developed for industrial deepening, private capital was not forthcoming. For example, the Korean government got involved in iron and steel, petroleum refining, petrochemicals, and machinery industry [Song 1990: 119]. The largest government undertaking was the integrated steel mill set up in 1968, Pohang Iron and Steel Co., which is now the second largest steel mill in the world, and which still remains under government control (partly privatized). In 1972, the public enterprise sector accounted for 9 percent of GNP or 13 percent of non-agricultural GNP [Mason *et al.* 1980: 272]. The following quotation gives a general picture of the role of public enterprise in Korea up to the mid-1970s.

Public ownership has . . . played a large role. Indeed, the share of public ownership in industrial assets in Korea . . . is fully as large as that of public ownership of industrial assets in India, with its "socialist pattern of society." Public enterprise has been particularly important in the development of the fertilizer industry, iron and steel, chemicals, and other branches of heavy industry. It has been effectively used as one of the chief instruments of government in its direction of the course of economic development. [*ibid.*: 18-19]

While increase in public ownership and economic growth went together in the first two decades of Korean growth, in contrast, the Thai government disengaged itself from entrepreneurial activities. Before economic take-off in the early 1960s, in the mid-1950s, for example, as the result of a nationalistic economic ideology which had arisen in the preceding two decades, Thailand had numerous government corporations. The World Bank mission which visited the country at that time reported the situation as follows.

The Government is . . . involved directly or indirectly in a large number of commercial and other industrial enterprises. In manufacturing it monopolizes tobacco, potable and industrial spirits and playing cards; it dominates timber, sugar, paper, gunny bags and minerals other than tin; it has large interests in cement, glass, pharmaceuticals, batteries, tin, tanneries and textiles, sometimes in direct competition with established producers; and finally, it operates a number of small plants making such diverse products as shoe polish, alum, rubber footwear, metal cabinets, paper clips, ceramics, and many others. In all, it controls some 60 establishments (including 15 distilleries), of which perhaps 40 can be classed as large in the sense of employing more than 50 workers. [PDP 1959: 91]

But by the mid-1950s, this economic experiment was developing problems. Most government and government-backed corporations were losing money. The conservative economic bureaucrats centered around the Bank of Thailand who wanted the government to leave entrepreneurial activities to private initiative engineered this visit by the World

Bank mission. After studying the situation in the country, the mission recommended that the government rely on private enterprise for economic development (industrial development in particular). This recommendation was adopted by the newly established Sarit government, and in the late 1950s, the government began disengaging itself from the financial, commercial and industrial sectors of the economy. Thereafter, the government restricted direct involvement largely to the public utilities sector (railways, air transportation, telecommunication, electric power generation and distribution, etc.).

Two major exceptions were the Petroleum Authority of Thailand and Khrung Thai Bank. But until recently, the former was engaged only in petroleum refining on a joint venture basis with Western oil companies, and it was not until the second half of the 1980s that it went into petrochemicals, again on a joint venture basis, by using the natural gas found in the Gulf of Siam as the chief raw material. Khrung Thai Bank was the second largest commercial bank in the late 1980s, having absorbed another private bank which had gone into trouble. But the banking sector has been dominated by private banks. Furthermore, the Thai government was little involved in development finance, unlike the Korean government.<sup>4)</sup>

#### d) *Foreign Direct Investment*

It is probably safe to state that the Korean government has been more restrictive on foreign direct investment than the Thai government. The following two reports of American-owned newspapers probably capture the general mood of foreign investors in Korea in the early 1990s.

This [xenophobic] state of mind can translate into complex regulations designed to repel or restrict foreign investors as if they were foreign invaders of old. So American and other businesspeople are going elsewhere; they no longer need Korea to have an Asian presence. In 1992, 220 foreign firms withdrew investments totaling \$369 million, with 52 leaving Korea outright.<sup>5)</sup>

When McDonald's Corp. in Korea decided last year to offer a 7 "Happy Meal" special for children—an inexpensive toy with the purchase of a burger, fries and soft drink—it turned into something of an unhappy affair.

The fast-food chain's executives were grilled by government regulators who demanded to know why they were trying to push children to spend more money . . . .

But not every foreign company is willing—or able—to go to such lengths to cope with a business climate widely perceived as fundamentally unwelcoming to

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4) Industrial Finance Corp. of Thailand was set up as a government bank for development finance, but its capital was small, and it was no longer a government-owned bank in the late 1980s (85 percent of its equity was owned by the private sector).

5) *The Asian Wall Street Journal*, February 25-26, 1994.



outsiders.

Despite recent efforts by the government of President Kim Young Sam to make South Korea an easier place to do business, many foreign concerns are opting out.

Big American companies that have made major cuts or abandoned the market altogether in the last few years include Atlantic Richfield Co., Bristol-Myers Squibb Co., General Motors Corp., Johnson & Johnson, IBM, and Digital Equipment Corp.

"South Korea has a long, long history of being somewhat unfriendly to foreign businesses," said Daniel Gran, first secretary for economic affairs at the U.S. Embassy in Seoul.<sup>6)</sup>

Japanese investors were also pulling out of Korea rather than investing in it. As a result of the yen revaluation after the Plaza Accord of September 1985, an unprecedented amount of capital flowed out from Japan. In the period 1987-1991, \$11.2 billion dollars of Japanese direct investment went to Thailand (on an approval basis) [Yoshihara 1994: 49]. Production costs in Japan rose as the result of the yen revaluation, so many Japanese manufacturing companies set up production bases in such countries as Thailand. Very little of such investment went to Korea. Instead, such Japanese companies as Toshiba and Pioneer were withdrawing from the country. The Japanese preference for Thailand was partly for cost reasons (wages were higher in Korea), but the major reason was that the Thai government encouraged foreign investors to invest in the country and offered incentives, whereas the attitudes of the Korea government were discouraging, if not prohibiting. The difference in investment climate is reflected in the number of Japanese living in the respective countries: about 6,000 in Korea vs. 25,000 in Thailand in 1993.

The attitudes of the Korean government toward foreign investment were more positive in the 1960s and early 1970s. At that time, Korea was not very sure of the outcome of its industrialization drives, and to make up for the technologies and, to some extent, capital it lacked, the country was more open to foreign investment. The place foreign capital occupied around 1974 is described as follows.

The share of foreign firms and joint ventures in total output in mining and manufacturing was about 10 percent in 1974, but in certain industries such as petroleum, metal and metal products, and electric machinery and electronics it was much larger. Foreign investment in chemicals was also considerable, though its share of output was only 15 percent. Although foreign invested firms accounted for only 10 percent of manufactured output, their share of manufactured exports in 1974 was over 30 percent. In certain industries their share was very high, notably machinery and machine parts (93.4 percent), electric and electronic components (88.6 percent), and metal products (84.2 percent). [Mason *et al.* 1980: 477]

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6) *International Herald Tribune*, March 3, 1994.

What happened after the mid-1970s was that the Korean government became more confident of the country's ability to sustain industrialization on its own. This was because of the success of such Korean conglomerates (which are called *chaebol* in Korea) as Samsung and Hyundai in diversification into heavy-chemical and technologically more advanced industries. Korea needed technologies and capital. Although foreign direct investment offered the two as a package, the government preferred the unbundling of the two and encouraged Korean firms to borrow capital abroad and introduce technologies through licensing. In borrowing capital abroad, the government was willing to offer guarantees to private companies, a policy the Thai government refrained from adopting due to its unhappy experience with such a policy in the 1950s.

The attitudes of the Thai government toward foreign direct investment varied somewhat over time. In the early 1960s, the government welcomed foreign direct investment in manufacturing industry, and approved even 100 percent ownership in import-substitution industry. By the early 1970s, the government had become more restrictive, making it difficult for foreign interests to own a majority in such industry. But in the early 1980s, in order to promote the exports of manufactures, the government began allowing 100 percent foreign ownership and offering other incentives for the investors who could contribute to this objective. In short, the Thai government became more open to foreign direct investment, since the country could not sustain growth on its own. In contrast, the Korean government became more restrictive because Korean firms developed the capability to do what foreign investors could and became their rivals.

### III Interrelations Among Economic Variables

One might question the validity of the cultural-institutional explanation of economic growth that this paper will offer, since economic growth, or changes in GNP, is related to changes in other economic variables and seems to have no relation whatsoever to the culture and institutions of a country. So, before jumping to discussion on institutions and culture, I have to explain why discussion on interrelations among economic variables alone is not sufficient.

It is often argued (correctly in my view) that in both Korea and Thailand, economic growth has been export-driven. The logic of this contention can be understood as follows. Increase in GNP requires increase in inputs and new technologies, many of which are not available in the country so that they have to be imported or, if they are available, they may be of such high cost or inferior quality that imports are preferable. Or, since new technologies developed abroad are often embodied in products to be used as inputs, imports may be essential to sustain GNP increase. That is, increase in imports is an important condition for increase in GNP. But increase in imports is possible only if it can be financed with the increased exchange earnings made possible by increased exports. Therefore, sustained economic growth requires sustained export increase. One might go as far as to

**Table 1** Exports : Thailand and Korea

	unit : US\$ million							
	1960	1965	1970	1975	1980	1985	1990	1993
Total exports								
Thailand	408	622	710	2,208	6,505	7,119	23,053	36,752
Korea	33	175	882	5,003	17,505	30,283	65,016	82,236
Manufactured exports								
Thailand	6	31	110	432	2,271	2,920	14,604	26,284
Korea	3	106	645	4,146	15,791	27,756	56,124	76,792
Machinery exports								
Thailand	—	—	1	28	372	625	5,116	10,952
Korea	—	5	61	762	3,555	11,384	23,807	36,965

Sources: [Asian Development Bank (1994)].

say that the faster the export increase, the faster the pace of economic growth. As if to prove this contention, Table 1 shows that exports increased faster for Korea than for Thailand. Especially in the 1960s and 1970s, Korean export increase was spectacular. In 1960, Korean exports were one-twelfth of Thailand's; 10 years later, they had caught up; and 20 years later, they were 2.7 times larger than Thailand's.

Export increase can be sustained only by a change in export composition. With economic growth, wages rise, so that the exports which were possible with lower wages become difficult with economic growth. For export increase to be sustained, the country has to come up with new exports which maintain the momentum of export increase by making up for the stagnation or decline of old exports. New exports are usually manufactured goods, and after a certain period, more value-added goods. As shown in Table 1, Korea shifted exports to manufactured goods faster than Thailand (the ratio of manufactured goods to total exports was as high as 73 percent in 1970, a percentage Thailand could not attain for another 20 years). Then, among manufactured goods, such labor-intensive goods as textiles declined in relative importance, and machinery became a major export group (accounting for 40 percent of total manufactured goods already in 1985).

If economic growth was export-driven for both Korea and Thailand, the reason for Korea's faster growth was its ability to shift exports from primary products to manufactured goods, and then to more value-added machinery. Then, the next question is why such a shift went more smoothly in Korea than in Thailand. Here, since the answer requires introduction of other economic variables (such as investment in machinery industry, savings, skill formation, and technological change), it becomes necessary to have a more comprehensive picture of interrelations among economic variables. The only meaningful way of doing so is to build an econometric model.

If that is done and one dependent variable can be written as a linear combination of other economic variables (dependent as well as independent), then the system of equations can be written in reduced form as

$$y = Ax,$$

where  $y$  is a vector of dependent variables,  $A$  is a matrix of parameters and  $x$  a vector of instrumental variables (such as interest rates for export finance, tax incentives for exports, and government expenditure on education) and exogenous variables, or variables which the country cannot influence (such as the stock of technological knowledge in the world, prices of goods in the international market, and world income). Then, one can argue that Korean growth was faster than Thai because the Korean matrix of parameters increased GNP for a given change of an exogenous variable (such as world income) more than the Thai, or because the Korean matrix and the levels of instrumental variables set by the Korean government interacted to produce greater positive effects on GNP than the Thai matrix and the levels of instrumental variables set by the Thai government did. Economists have been interested mostly in instrumental variables, but my interest is in what determines the parameters. I'll argue below that they depend on the culture and institutions of a country.

#### IV The Structure of Individual Choice

One makes various economic decisions in a given period of time. He has to decide how many hours to work, how much to save, how much to spend on consumption, how to allocate the budget over various consumption goods, and so on. Take, for example, good A. Economics teaches the quantity demanded is determined by income and prices, but it also depends on the parameters defining the relation between them. Depending on the numerical values of the parameters, one may buy more or less for the same income and prices. Therefore, the parameters affecting individual choice become an important consideration in explaining economic growth, especially when they affect the quantity and/or quality of inputs which enter aggregate production functions.

In three areas of individual choice, Korea seems to have had an advantage over Thailand. They are a) leisure-goods trade-off, b) risk-taking, and c) demand for education.

##### a) *Leisure-Goods Trade-off*

The utility of an individual can be considered to be a function of leisure and consumption goods. Or it may be considered to be a function of income and leisure time, whereas income is to be spent on consumption goods (today and in the future). Fig. 2 shows an indifference curve between goods and leisure. The horizontal axis shows the amount of leisure, which can be measured in hours per day, whereas the vertical axis shows goods, which can be interpreted as a bundle of goods to be consumed. The point to be made here is that, as people do not have the same trade-off between leisure and goods (or the same rate of substitution), nations do not. Koreans seem to have attached less importance to leisure (or

more importance to goods) than Thais, and this made labor supply (measured in working hours) more abundant in Korea than in Thailand. If so, with greater labor participation and/or longer working hours, per capita output should be higher in Korea. The reasons for believing that Koreans have been more willing to work are as follows.

1) In the period 1966-1972, when comparable data are available, Koreans worked 55.6 hours per week in non-agricultural sectors, whereas Thais worked 47.2 hours (that is, Koreans worked about 18 percent more) [ILO 1976: 499]. These figures may underestimate the true difference in working hours (the Thai figure seems to overstate the number of working hours), but they are the only comprehensive data available on a comparative basis.

In Thailand, practically all offices (government and private) are closed on Saturday. In provincial government offices, many workers stop working at noon on Friday, which they call "little Saturday." In Korea, government offices are open a half day on Saturday; people in the private sector work at least a half day, often a full day. From Monday to Friday, the working hours are officially from 9:00 a.m. to 5:00 p.m., which is not very different from the working hours in Thailand, but many people start working at 8:00 a.m. and go home after 8:00 p.m. [JETRO 1987: 114]. One observer states that Korea has the longest work week in the world [Amsden 1989: 205].

The following is a description of working hours in the fast growing conglomerate, Daewoo, probably around the mid-1970s.

The regular working hours . . . are from 8:00 A.M. to 7:00 P.M. To staff its thirty-six foreign branches, language training is provided from 6:00 to 8:00 A.M. daily, with any absences "affecting promotion." [Mason *et al.* 1980: 281]

However, a Daewoo employee who has experienced the period of the company's rapid growth recalls that the actual working hours were longer:

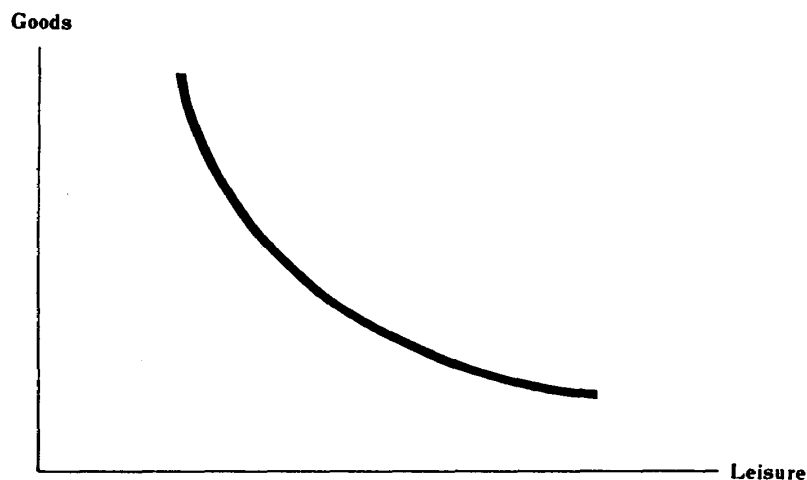


Fig. 2 Indifference Curve

We actually worked double the time of other companies: instead of working the conventional 9 to 5, we worked from 5 a.m. until 9 p.m. [Clifford 1994: 84]

Typical economic variables affecting the hours of work are wages and income. The latter is believed to have negative effects, and since Korean income was roughly equal to Thai in the 1960s and higher in the following decades, the difference in working hours cannot be explained by income. Higher wages may have been a factor, but they could not have been so around 1970 when the level of income was similar. Even in later years, it is doubtful that higher wages were the major explanation for the longer hours of work.

2) Ethnic Chinese in Thailand, if defined as Thais who have a parent, grandparent, or great-grandparent from China, account for about 10-15 percent of the Thai population (several million ethnic Chinese today since the total population is about 56 million).<sup>7)</sup> Despite their minority status, they dominate business and professions. Among privately-owned big businesses, for example, few are owned by non-Chinese. At top universities, a large proportion of students and the faculty are said to be ethnic Chinese.

The reason for Chinese "over-achievement" is partly institutional, but it seems related to their stronger work commitment as well. The Chinese were originally brought to the country to make up for the reluctance of the indigenous Thai to work. Economic modernization of Thailand required a lot of hard work the Thai were reluctant to undertake. For one thing, a railway system had to be built. It was the Chinese who supplied coolie labor for this. In addition, they worked as laborers in new processing industries such as rice and saw mills; as stevedores in the Bangkok port; as coolies for canal building in the Bangkok area; and as tin miners in southern Thailand.

In contrast, one hardly hears about Chinese in Korea. It is not true that the Chinese were more willing to migrate to a tropical region; they were willing to go anywhere where they could prosper (though confined largely to the Pacific Basin). In fact, towards the end of the 19th century, Chinese, especially from Shandong Province, began migrating to Korea, and numbered 37,000 in the early 1930s. Chinese immigration was renewed in postwar years, and the number of Chinese in the country reached 40,000 in the mid-1960s. But since then, the number has declined, and there are fewer than 20,000 Chinese in the country today [Hirai 1993: 98-107].

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7) The estimates of Chinese in Thailand are mostly for early postwar years. The most often quoted figures are Victor Purcell's and G. William Skinner's. Purcell's estimates for 1947 are 2.5 million (14.4 percent of total population); Skinner's estimates for 1950 are 3 million (16.7 percent of total population). The difference was unlikely to be due to the difference in the years of estimation. It was mostly likely due to the different data sources used. Purcell also gives estimates for 1960. The Chinese population in Thailand increased only to 2.7 million (possibly because Chinese immigration stopped and, because there were few new marriages, there was little natural growth), while the total population grew at a little over 3 percent per annum between 1947 and 1960. As a result, the proportion of the Chinese population came down to 10.2 percent. See Victor Purcell [1980: 3] and G. William Skinner [1950: 3].

The number of Chinese immigrants in Korea was not as large as in Thailand possibly because Koreans could do much of what the Chinese were willing to do — a situation very different from Thailand. When Korea was under Japanese rule (1910-1945), the Japanese did not need immigrants to build up the economy, since Korean labor was generally adequate. In postwar years, the Chinese who remained in South Korea or the new arrivals faced increasingly discriminatory policy, and could not prosper. So, the immediate reason for their poor showing in Korea was discrimination (thus, not a cultural reason), but the reason for this policy was the Korean ability to do what Chinese could.

One might argue that the reason why the Thais were more reluctant to work than the Chinese was that they enjoyed a higher level of income than the Chinese and thus had a higher opportunity cost (and the Koreans were willing to work as hard as the Chinese since they were equally poor). Since the Thai population was small and the environment was fairly good for food production in Thailand, compared with the immigrants' densely populated homeland in southern China, the Thai level of income was probably higher. But even though the Chinese caught up with the Thais soon after they settled in Thailand, they continued to work as hard as before. It is widely accepted that the Chinese were far more willing to trade money for leisure than the Thais.

Many Thai intellectuals do not want to concede this point, but some do. For example, here is what the respected Thai scholar Phya Anuman Rajadhon said a few decades ago.

Someone has said that the Thai, in comparison with the Chinese, "are indolent, unwilling to labor more than for immediate needs, contented with their lot, uninterested in money or economic advancement, conservative and satisfied with a dependent status." This is true. [Anuman 1988: 51]

A contemporary Thai sociologist at Thammasat University, Satit Niyomyaht, makes a similar point.

Thai people are not ready for hard work, do not have fortitude, endurance and courage, and are not persevering and steadfast . . . . Thai people tend to avoid hard work . . . . It is important to notice that those working in the government sector are Thais, whereas those working in the private sector are Chinese. It is so simply because Thai people prefer light work and avoid work that calls for skill and prowess. In consequence, important businesses in Thailand are in the hands of Chinese. [Satit 1993: 9]

#### b) *Risk-Taking*

The factors which make a person more willing to trade money for leisure may also affect his attitudes toward risk-taking, but labor supply and risk-taking have different economic effects. While the former affects only one input (labor) of a production function, the latter

is necessary in order to take advantage of economic opportunities—an essential condition for raising productivity.

Risk-taking is often equated to entrepreneurship, but one can make economic decisions which involve risk without being an entrepreneur (who is already in business or is trying to set up a new business). For example, migration is a risk-taking activity (one is not sure how he will do in a new environment, but is willing to migrate since it is likely to improve his economic well-being), and contributes to a better allocation of resources.

Korean urbanization progressed faster than Thai. This can be seen from the fact that as early as 1960, 28 percent of Korea's population was urban—a level not yet reached in Thailand by 1990.<sup>8)</sup> But the problem of using urbanization as an indicator of people's willingness to migrate is that it can be influenced by factors, such as the rate of job creation in cities, which differed between the two countries. A more persuasive indicator is the number of people who went abroad attracted by better pay, since opportunities abroad were open to both Thais and Koreans.

In 1965, the United States changed its immigration law, making it easier for Asians to migrate there. A large number of Koreans took advantage of this change and settled in the United States, where, according to the 1990 Population Census, there were about 800,000 Koreans. Fewer Thais emigrated to the United States, where their number in 1990 was only 91,000.

A large number of Koreans also went abroad as contract workers. The peak was in the period 1981-1985 when about 150,000 left the country per year (mostly for the Middle East). A large number of Thais also went abroad to work, and their response in this regard was better than to emigration opportunities in the United States. In the period until the end of 1988, 70,000 Thais annually went abroad to work, slightly less than half the number of Koreans [Ministry of Labor 1992: 493-496].

After 1965, the Vietnam War escalated, and this provided economic opportunities for Korea (some have gone as far as to say that Vietnam became Korea's El Dorado [Cole and Lyman 1971: 230]). Korea dispatched 335,000 troops in the period 1965-1972, almost ten times as many as Thailand. True, they were sent by the Korean government; but most of them were volunteers, and in a way, they were the mercenaries of the United States [Pak Kun Ho 1993: 33]. They were attracted by the financial incentives the government offered, which, though not as good as those offered by the Thai government [*ibid.*: 34], were much better than what they could earn at home (which was not much different at that time from what the Thai were earning in their country).

In addition, a large number of Korean civilians worked in Vietnam; in the period 1966-1969, over 10,000. A large percentage of them worked for American contractors, but a few thousands worked for the Korean firms which were undertaking, as the subcontractors of American firms, dredging at ports and the construction and repair of

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8) Based on World Bank [1981;1992].



military facilities and civilian infrastructure. It was at this time that such Korean businesses as Hyundai ventured abroad for the first time and laid the foundation for expansion in the 1970s.

As to the willingness of Koreans to venture into business, an insight is afforded by the attitudes to business of Korean emigrants. In the Los Angeles area, where both Thai and Korean immigrants are concentrated, one hears little about Thai businesses except Thai restaurants and gift shops, whereas Koreans are visible as grocers, liquor store owners, and dry cleaners. They were willing to venture even into a tough neighborhood, such as South Central Los Angeles. Earlier immigrants (and their immediate descendants) from Europe who had come earlier (e.g. Italians and Jews) were abandoning such areas, so that property was available at prices affordable to newly arrived Korean immigrants. While a large majority work for other people, the percentage of people in business seems relatively high among Korean immigrants.

The attitudes toward risk-taking of Korean and Thai businessmen in their own countries are difficult to compare, but Korean conglomerates have impressed by their rapid rise in the world economy dominated by companies in industrial countries. In a matter of less than 20 years, Hyundai began challenging Japanese and Western companies in shipbuilding and autos, Daewoo in shipbuilding and electrical appliances, and Samsung in electronics (especially in memory chips). A rise of inward-looking conglomerates is not very impressive, since it may be the consequence of using political connections wisely and getting established in the heavily protected domestic market, but Korean conglomerates, though they used the protected domestic market as a base, became successful exporters in a relatively short time. They overcame two barriers: one was to master new technologies and the other to operate in a *terra incognita*. Although the government's financial incentives helped, more important was their willingness to overcome the barriers. In this the Koreans manifested the spirit of "can do," or what they call *hamyon toenda*. True to this spirit, they set up one after another the export industries that the country needed for sustaining economic growth.

The above "evidences" may be explained by factors other than attitudes toward risk. For example, social capital (or networks) may have been an important factor in emigration and business venture in the United States, technology in the success of industrial capitalism in Korea, and government pressure (if not coercion) in the larger Korean military presence in Vietnam. But all these cannot be explained without recognizing the willingness of Koreans to try something new and face the consequences (even to the extent of getting killed, as in the case of going to Vietnam during the Vietnam War or starting business in a tough neighborhood in the United States). What drove them to do so were the expected financial rewards (and self-autonomy in some cases, such as going into business in the United States instead of working for someone else)—a phenomenon observable universally, but what distinguishes the Koreans from other nationalities such as the Thais is the extent of response to such rewards.

Work orientation and risk-taking often go hand in hand in business venture. For business development as well as sustaining economic growth, it is important that business failure due to risk-taking be minimized. This can be done with more work. One major reason why many Koreans succeed in small business in the United States is that they work many hours, often more than 12 hours a day for seven days a week (family members also cooperate). This reduces the cost of business and cushions business risk. Or with more work, more information is gathered, and it may reduce the amount of risk one has to take in business venture. Numerous bad decisions have been made, and many business failures have resulted, but what is important is that Koreans (for that matter, any ethnic group which is known for business success) had a combination of work orientation and positive attitudes toward risk-taking.

c) *Demand for Education*

The importance Koreans attach to education is reflected in enrollment ratios. In 1970, when income was not much different between Korea and Thailand (per capita GNP was \$243 for Korea and \$195 for Thailand), the enrollment ratio at secondary level was 42 percent in Korea and 17 percent in Thailand. Even 15 years later (1985), Thailand had not yet reached the Korean figure of 1970; the ratio was still 30 percent. As to tertiary education, Korean enrollment was 10.3 percent in 1975, whereas Thai enrollment was 3.4 percent. By 1985, the Thai enrollment figure (19.6 percent) had surpassed that of Korea in 1975 (one important reason being the two open universities set up thereafter), but Korea had raised its figure to 31.6 percent. The average number of years of schooling in the mid-1980s was 11.4 for Koreans and 7.0 for Thais [Tan and Mingat 1992: 130-131].

The intensity of teaching and learning per year is also higher in Korea than in Thailand. In the early 1980s, Korean students went to school (from primary to high school) for a minimum of 220 days, but Thai students attended only 190-200 days.<sup>9)</sup> In the early 1970s, the school year was even shorter in Thailand: 180 days at both primary and secondary level [Passow *et al.* 1976: 262].

Korean children also study harder at home than Thai. An international survey on the hours spent per day on homework by ten- to fifteen-year-old children, conducted in 1979 by a Japanese government agency, shows the following.<sup>10)</sup>

	Korea	Thailand
None	1.0	6.6
Less than 1 hour	11.4	31.9
1-less than 2 hours	35.4	39.5
2 hours or more	52.0	22.1

9) The figures for length of school year are from NIER [1991: 25; 1993: 36, 58, 85]. These are the reports of the second international survey of science and mathematics education coordinated by the International Association for the Evaluation of Educational Achievement.

10) See Management and Coordination Agency [1987: 195].

The median is one hour for Thailand and two hours for Korea.

The difference in the demand for education may have been due partly to income difference, but until the late 1960s, Korea had lower income, yet its enrollment was higher. As far back as the late 1950s, Korea was the most extreme deviant, on the high side, in a correlation of the level of education with the level of income. At that time, Korea's level of education was comparable to that of a country with three times its income.<sup>11)</sup>

The distribution of household income may have been a factor favorable to Korea. As pointed out earlier (at the end of section I), Korea had more equal income distribution than Thailand. But the difference in income distribution does not seem to be large enough to be the whole explanation for the greater demand for education.

One might suppose that, since the Korean government spent more money on education and lowered the cost of education, this spread education in the country. But government expenditure on education in Korea, as ratio to total government expenditure or GNP, was less than in Thailand (or at best, the ratios were roughly the same) [Tan and Mingat 1992: 17]. The Korean government demanded that the public pay a greater share of the cost of education. In the 1980s, for example, at all levels, education was cheaper in Thailand than in Korea [*ibid.*: 132-133]. Despite the greater private burden, Koreans were more willing to educate their children. This situation is described as follows.

This has been made possible by virtue of the fact that private households have paid approximately two-thirds of the direct costs of education . . . as opposed to perhaps one-third in a more typical developing country.

Private educational expenditures take several forms. In the elementary schools, it has long been customary to supplement budgetary allocations with "voluntary" parental contributions made through the Parent-Teacher Associations (called Yuksonghoe since 1970). Out of school expenditures include the usual costs of books (even most elementary school students must buy their own), school supplies, transportation, extra-curricular activities, and (for some) room and board. In addition, large sums are frequently spent on after-school tutoring to prepare students for the crucial national examinations. Finally, three-fourths of government expenditures in education have gone for compulsory (elementary) education. Expansion of the higher levels of schooling has been largely a private matter . . . . Increasing shares of secondary and higher education enrollments have been in private institutions. [Mason *et al.* 1980: 355-358]

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11) A study cited in David Cole and Princeton Lyman [1971:138].

## V The Government as a Factor of Growth

### a ) *Providing Public Goods*

Work orientation, the willingness to take risks, and preference for education are unquestionably favorable factors of economic growth, though one may disagree about how important they are. But when the government is added as another factor of growth, many economists would question it. To the libertarians, the government creates problems for economic development rather than helps it. But even they would agree that public goods cannot be efficiently supplied by the private sector and must, therefore, be supplied by the government. If they are not supplied efficiently and adequately, the performance of the market economy suffers. But not all governments fulfill the task equally well: some do better than others. Since I cannot prove it, I offer it as a working hypothesis that the Korean government has been more effective in supplying public goods than the Thai government (effective in the sense that the supply of public goods was greater for the same cost).

Before offering "evidences" for the hypothesis, I should point out first that the Korean government did not perform better in all areas. There are some areas where the Thai government did better. For example, if monetary stability is a public good, this was one area where the Thai government excelled. The rate of inflation per annum in the period 1965-1990 was 5.1 percent for Thailand and 13.1 for Korea [World Bank (1992)]. The exchange rate of the Thai baht to the U.S. dollar changed only from 20 to 1 to 25 to 1 from the early 1960s to mid-1990s, whereas the exchange rate of the Korean won fell from 130 to 1 to over 700 to 1 in the same period.

The uncertainty created by inflation and exchange devaluation did not seem to be an insurmountable barrier for business decision-makers when the economy was growing rapidly. In the supply of most other public goods, however, the Korean government seems to have performed better. For example, traffic congestion is a big problem in Bangkok today. One reason for this is that the government has done a poor job in developing a mass transit system (so people have to depend on motor vehicles for transportation). In a report submitted to the Japanese aid agency JICA, the average traffic speed during the morning and evening rush hours was estimated to be 8.1 kilometers in 1989 [Handa 1995: 39]. With more cars, it must be slower now. Between 1989 and 1993, the number of registered vehicles in Bangkok increased 36 percent (from 1.03 million to 1.40 million, excluding motorcycles). Traffic conditions are so bad that some vehicles are outfitted with CD players, telephones, fax machines, televisions and even portable toilets.

Traffic congestion is also getting worse in Seoul with the increased number of cars brought about by higher income, but the situation is not yet as bad as in Bangkok. In Seoul, there are four subway lines covering 117 kilometers: the first line opened in 1974 and the last three in 1984 and 1985. In the second largest city, Pusan, there is also one subway line. Subways are a great help in relieving the traffic load. If subways are difficult for

technical reasons in Bangkok, elevated trains will do; but the government has spent a long time deciding how to go about building a mass transit system, because the different government organizations under whose jurisdiction this falls are not well coordinated with each other (it is now implemented slowly). Generally, the trouble with the Thai government is that ministries are run like independent organizations and their coordination is difficult. The interests of political parties make the situation worse. The parties which control relevant ministries want to make the best use of their position for extracting money from contractors.

Police performance in Thailand is also poor, though one has to put numerous complaints about police in a comparative perspective. Certainly, crime rates are high and arrest rates are low. Many people do not report thefts, because they feel that it is a waste of time. Most of those who do so are disappointed. The arrest rate in murderer cases is also low. In the late 1980s when the government was planning the Southern Seaboard Project, the police undertook a crime study of Nakhon Si Thammarat and Surat Thani (two major provinces in the region). In the former, there were 6,777 murder cases during 1979-1988; in 17 percent of these cases, suspects were arrested; in 14 percent, they were prosecuted; and in 7 percent, they were sent to prison. Police performance in Surat Thani was only slightly better.<sup>12)</sup>

Police effectiveness in arresting suspects is a function of the number of crimes per policeman. Police complain that there are too many crimes committed. This may be true, but they are also lax in doing their work. The development of the sex industry was made possible with the connivance of police. The same thing can be said about drug trafficking in the country. The not-too-strict attitudes of police to these problems may have been more of an advantage to the economy until recently. The sex industry has been important for the tourist industry, which was the largest foreign exchange earner for many years. Drug trafficking was thought to be more for export, giving opportunities for making money to "gatekeepers" and not causing any harm to the country.

But problems have begun cropping up. Chiang Mai and Chiang Rai provinces alone may have as many as 600,000 heroin addicts, roughly the same number as in the United States.<sup>13)</sup> As to the spread of AIDS, WHO predict that Thailand will have between 2-4 million accumulative HIV infection cases and between 350,000-650,000 AIDS cases by the end of this century.<sup>14)</sup> The mishandling of the Saudi Arabian jewelry scandal which began in 1989 angered the Saudi Arabian government so much that it started refusing to issue visas to Thais; as a result, the number of Thai workers in Saudi Arabia declined from a peak of 250,000 to 20,000 in mid-1994. It is reported that this has been costing

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12) For the source and further discussion on police performance, see Yoshihara Kunio [1994: 189-191].

13) The editorial of *The Asian Wall Street Journal*, January 10, 1995.

14) *Bangkok Post Weekly Review*, June 10, 1994.

Thailand \$1.5 billion annually.<sup>15)</sup>

A more serious long-term problem has been the loosely-enforced rule of law. The *jao pho* (lords), operating in 39 out of the total of 79 provinces, acted above the law and could challenge police authority if necessary [Pasuk and Sungsidh 1994: 78]. They combined business acumen with the ability to deliver violence, and became successful in such areas as construction, real estate, and service. With the connivance of police (and the military), they could easily prevent outsiders from coming in, with threats and, if necessary, violence.<sup>16)</sup> In Korea, on the other hand, although one may hear about mobsters, they have been much less visible and their social (and business) influence more limited.

b) *Effectiveness in Providing Basic Education*

It is often believed that education should be provided by the government, though it is not a typical public good, as seen from the fact that there are private schools. But the fact is that both Korean and Thai governments are running schools. The part of education (especially primary) which teaches basic reading and writing skills, arithmetic and morality can be a public good, but the part whose benefit accrues primarily to individuals is not (especially, tertiary education). But since the two parts cannot be neatly separated, there is no other way but to discuss government performance in both parts of education. If the second part is considered to be the business of the private sector, then the government can be interpreted to be engaged in the education business, and its performance here to be highly correlated with the productivity of the public goods sector. If it is not unreasonable to assume such a correlation, since the productivity of public enterprises is correlated, one can argue, *prima facie*, that productivity in education in Korea has been high, from the relatively high productivity of such government enterprises as Pohang Iron and Steel Co. (as evidenced from the fact that it was able to grow over time by competing in the export market).

In primary schools, class size in Korea has been about twice as large as in Thailand (35 in 1965 and 18 in 1989 for Thailand, versus 62 and 36 respectively for Korea) [World Bank (1992)]. For a considerable time, there were more students per school in Korea than in Thailand, because of a shortage of school buildings: in the late 1960s, in Seoul (as well as other large cities, though the situation was not as serious), children were divided into two to three shifts, a situation which was unusual in Bangkok, although it did exist in the early 1950s when there was some shortage of school buildings. All this kept government expenditure per child low.

How about educational output? The trouble in measuring it is that even if it is equated to the amount of learning, the latter is affected by private inputs (such as attitudes toward learning, hours of homework, etc.). So, even if Korean children have learned more, the most

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15) *The Asian Wall Street Journal*, August 19-20, 1994.

16) For further discussion on *jao pho*, see Pasuk Phongpaichit and Sunsidh Priyarangsan [1994].

that can be said is that despite limited expenditure, the government enabled children to learn more, with the help of private inputs.

But did Korean children learn more than Thai children? A meaningful comparison is difficult in such subjects as language, social studies, and history. But knowledge of science and mathematics can be more easily tested. In these subjects, it is probably safe to say that Korean children learned more (certainly not less).

In 1983, the International Association for the Evaluation of Educational Achievement (the headquarters is in the Hague) gave science tests to 15-year-olds. Though the enrollment ratio in middle schools was much higher in Korea than in Thailand (99 percent vs. 32), the score was better for Korean children than Thai (61.0 vs. 56.7) [NIER 1993: 43]. In the science test of 1970, only Thai children participated: they ranked 12th at primary level out of the 15 countries which participated, and 14th out of the 17 countries at lower secondary level [Passow *et al.* 1976: 19-20]. In the 1980-1982 mathematics test, it was also only Thai children who participated. The results were similar to those in 1970; the Thai averages were among the lowest at both lower and upper secondary level [NIER 1991: 93]. On the other hand, in another test given to 13-year-olds in Korea and various industrial countries, the Korean average score was one of the highest [World Bank (1993): 72].

In general subjects, the only comparable data available are the responses to one of the questions in the 1979 survey by the Japanese government agency cited above. In both Thailand and Korea, about 1,500 children of 10 to 15 years old were asked the capitals of three Western countries (the United States, United Kingdom, and France). The average percentage of correct answers was 69.1 among the Korean children, but it was only 20.9 among the Thai children. They were also asked the capitals of three Asian countries (Japan, Thailand and Korea). Of the Korean children, 20.1 percent knew the capital of Thailand, but only 2.9 percent of Thai children knew the capital of Korea.<sup>17)</sup> The overall level of learning in schools is difficult to compare, but the general impression is that Korean children learn more than Thai.<sup>18)</sup>

One problem of education in Thailand is the quality of teachers and their sense of mission. It is generally said that the students who go to normal college and become teachers are those who cannot enter university because of their poor academic background (they constitute the bulk of teachers). When they become teachers, many of them, especially in provinces, do not seem to be very serious.

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17) See Management and Coordination Agency [1987: 215]. The survey outside Japan was conducted by the affiliates of Gallup International. There is practically no difference between the two countries in the composition of samples by sex and age.

18) This is the impression of some Koreans who have seen Thai education. The former rector of Seoul National University, Ko Byong Ik, who went to Thailand expecting to find a country of book culture, since it had been modernized by great kings and escaped Western colonization, was disappointed. He found that the reading public was small in the country because of a low level of functional literacy. See *Nikkan Rikai eno Michi: Zadankai* [1987:161].

The Thai novelist Khammaan Khonkhai, who grew up and taught in a rural village in northeastern Thailand, describes a school there in his novel *Khru Barn Nork* (Village Teacher). In the mid-1970s, when lower primary education was for four years, although there was one class for each grade and one teacher was supposed to be assigned to each class. However, it was not until a few months after the beginning of the school year that all the teachers arrived. Two of them, moreover, often abandoned class for a drink outside school or for gambling in a little wood outside the village. This situation did not seem to have been exceptional among provincial schools, where the bulk of children went, because of the low level of urbanization. Such a situation is unheard of in Korea. Observers of Korean provincial schools (even schools in remote areas) are impressed with the systematic way in which teaching is done.<sup>19)</sup>

c ) *Government Intervention for Industrial Restructuring*

The Korean government has been also an active participant in the country's economic development. One Korean economist writes:

The Korean economy has been mostly government-directed, government-led, or government-propelled. In effect, Korea has pursued a "government-led market economy," in contrast to Hong Kong's "market-led market economy" . . . . The Korean government has used its "strong visible hand" to reinforce and facilitate the function of the market economy. [Song 1990: 243].

It is well known that government intervention reduces static efficiency but can raise dynamic efficiency. Also, the government can affect people's attitudes by showing what the country needs to do and asking their cooperation. This latter task may not be necessary in developed countries where it is people, not government, who decide on the course of a country, but in developing countries, the government may succeed in raising people's expectation and encouraging them to strive to attain it. The Korean government, especially during the Park Chung Hee period, seems to have been quite effective in this task, but since this is further discussed in the next section, I'll focus here on government intervention in the economy.

Government intervention, instead of becoming a drag on the economy, seems to have contributed to economic growth in Korea (although it is also possible that high growth took place despite intervention). There is no doubt that government intervention *can* promote economic growth, as has been argued by proponents of the infant industry theory since the early 19th century. Whether intervention works or not depends on two things. One is the response of the private sector (the better the response, for example, the shorter the period of protection and the smaller the need for protection), and the other is the ability of the

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19) For example, see Otsuki Takeo [1992].



government to carry out intervention effectively. The latter and the ability to deliver public goods efficiently are related. In the former, in order to decide which industries to promote, first, information has to be gathered and analyzed; overall assessment of the present situation must be made; and right plans must be drafted. These tasks require a competent bureaucracy. Since this discussion overlaps with the ability to deliver public goods, I'll focus here on the government ability to implement a plan which has been drafted.

Suppose that the government decides to develop a particular industry for the next stage of industrialization. For this, the government may give protection from foreign competition, restrict entry, give financial incentives, or go into it on its own (setting up a public enterprise). In theory, the government can contribute to sustaining economic growth with the right kind of intervention, since the economy has to restructure. As pointed out in section III, the export increase of Korea after 1960, which was indispensable for sustaining economic growth, was possible because the composition of exports changed from primary to manufacturing goods, and in manufacturing goods, from light industrial goods such as textiles to machinery. Only with such a change in the leading exports, in the "flying-geese" pattern, could the export increase be sustained. The government was able to help the economy restructure and come up with new exports over the course of economic development.

Government intervention in economic (or more specifically, industrial) restructuring, however, leaves a lot of discretionary decisions to government officials in charge. The problem is that the officials can use their power for their own advantage, not necessarily for the interest of the country, and favor certain companies in return for financial or other returns. Such a situation, called government corruption, is a principal problem of government-directed industrialization in developing countries.

How did the Korean government avoid this problem? The Park Chung Hee government (1961-1979), which put the country on the path of high growth, was 1) committed to economic growth (this was made one of the top two national priorities, the other being the defense of the country from North Korea),<sup>20)</sup> 2) able to implement plans because of Park's strong leadership, and 3) relatively free from corruption.

One practical problem was how to identify the firms which could contribute to industrial restructuring and thus were worthy of government assistance. One major criterion was export performance. The government set export targets for various industrial goods, and the more a firm contributed to meeting the targets, the more assistance-worthy it was. Since major industries, especially capital-intensive or technology-intensive ones, had to be import-substitution industries first, the export criterion could not be relied on from

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20) See Shin Bum Shik [1970: vii]. There are a few books published in English under his name. *The Country, the Revolution and I* [1970a] Seoul, Hollym, 1970 (this is a translation of his writings before the October 1963 presidential election); *Korea Reborn: A Model for Development* [1979], Englewood Cliffs, Prentice-Hall, 1979; *Our Nation's Path* [1970b], 2nd edition, Seoul, Hollym Corporation, 1970 (the first edition was published in 1962); *To Build a Nation* [1971].

the beginning, and mistakes were made in giving assistance. But, helped by the dynamism of the private sector, the government did not have to wait too long to find out which ones were performing (in the export market) and which ones were not, and it did not have to stick to "losers" for long. This reduced the cost of mistakes in government-directed industrial restructuring.

The critics of President Park would say that his administration was corrupt. True, a number of officials seem to have used their power to enrich themselves or their families, as evidenced by the fact that several government officials were found to have been corrupt in the investigation carried out soon after the death of President Park.<sup>21)</sup> But the critics would agree that the President himself did not enrich himself or his family. And periodically, he directed a "clean-up operation." This limited the extent of corruption among government officials, who feared losing their jobs and facing social ostracism if they were fired for corruption.

## VI Change of Government Leadership as a Triggering Factor

If individual choice was favorable to Korean growth, and if the Korean government was more effective in supplying public goods and in industrial restructuring, why wasn't Korean income higher than Thai to start with? The reason is that the Korean government was not very effective in the 1950s, and the factors which made individual choice favorable to economic growth were not induced as effectively then as in the 1960s and thereafter. In the early 1960s, people were asking why Korea was so backward and what was keeping the country that way. One factor which was often mentioned was corrupt government. Business elites were rent-seeking, while government officials were busy soliciting bribes. In the military, as one general put it, "Privates steal on foot. Officers steal in jeeps. Generals steal by trucks" [Clifford 1994: 91]. One American official in charge of an aid program in Seoul wrote in early 1961 that Korea was "a sick society with endemic Oriental problems of graft, corruption, and fraud," which cannot be changed overnight [Woo 1991: 76-78].

Soon after Park took over government, he undertook a major cleaning operation (called "one of the greatest purges in Korean history"). Two thousand military officers (including 55 generals) and 4,000 civil servants were dismissed or arrested on various charges [Huer 1989: 97]. On the corrupt politicians and businessmen, President Park wrote:

The object of [the] clean-up is trash—the old politicians. Without its disposal, clean-up means nothing. The revolution becomes meaningless. This is true, not only in

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21) After Park's death, nine of his aides were arrested for corruption. Kim Jong-pil was found to have amassed 21.6 billion won (\$32 million at the 1981 exchange rate), Yi Fu-nak 19.4 billion won, and Yi Se-ho 11.1 billion won; the total for the nine, 85.3 billion. See Kim Chin [1993] and Murotani [1987].

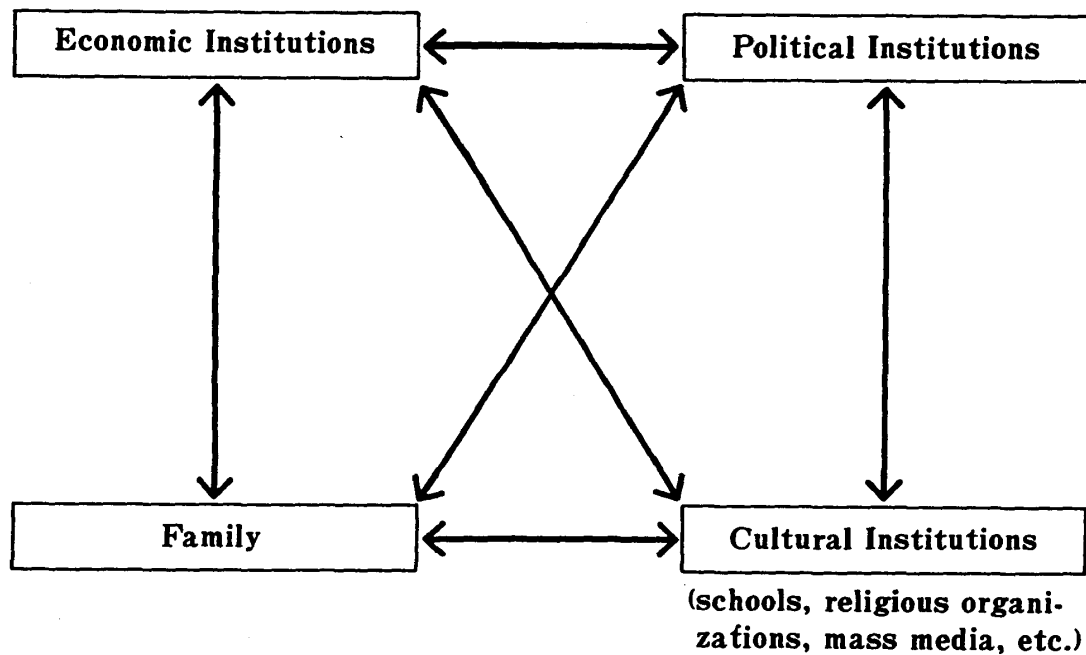
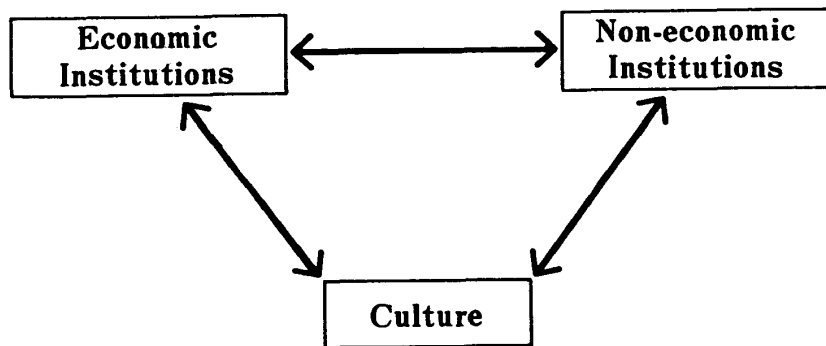


Fig. 3 Four Major Institutions

our case. It is true, with all revolutions throughout the world. Herein, do we find the basic reason why the April 19 Revolution failed to bear fruit. The responsibility of cleaning-up was entrusted to some other person. Thus the revolution became merely an uprising. [Park 1970a: 62]

We also cleansed the economic world, which had bound itself inseparably with politics and dared to perpetrate all kinds of social evils under its wing. There is no need to emphasize that these evils should have been purged even before the political evils. The revolutionary government decided, therefore, to confiscate from 59 illicit fortune makers a total of 5,752,543,368 won. [*ibid.*: 63]

Many political scientists interested in economic development emphasize the government as an important factor to consider. Because of their political focus, they tend to convey the impression that the nature of government is the only thing that counts in explaining economic growth, but that is probably not what they mean. They probably mean that the government can play a critical role in economic growth through its influences on culture and institutions. This point is often missed by other social scientists interested in long-term economic growth. The economists tend to think that what matters is the working of economic institutions, but, as pointed out in the previous section, how the government works has an important bearing on economic performance. True, the working of government depends on economic performance too (so, economists might argue, it is an economically determined variable), but it also depends on the working of cultural and family institutions as well as political culture.



**Fig. 4** Relations among Institutions and Culture

Fig. 3 shows the interrelations between economic, political, cultural and family institutions, while Fig. 4 shows the interrelations between economic institutions, non-economic institutions and culture (defined as values, attitudes, and beliefs). The generic economic institutions are the market economy and the centrally planned economy, but there are intermediate categories and numerous subcategories. Similarly, political institutions can be divided broadly into such types as democracy and authoritarian government, but they can be further subdivided. Cultural institutions include schools, religious organizations, and mass media—the organizations which are created to influence culture directly or which make products which affect culture. The family produces children, and educates and disciplines them. The types of these institutions and their working are related to culture. Although economic forces are influential, Figs. 3 and 4 are designed to show, contrary to the arguments of economic determinists, that non-economic forces can influence culture as well as the working of institutions.

Before discussing Korea further, I should point out that, although institutional forms are rather clear-cut, culture is diverse in a country. Values differ from one person to another, so that if I say that such and such are characteristic Korean values, some Koreans may not have such values, while some Thais may do. If such word as Korean culture is used, it must be interpreted as the culture of a majority of Koreans (assuming that there is such culture). Within a country, however, it is important to keep in mind that there is cultural diversity, and the values held by a majority may or may not define institutions. But for an institution to work properly (for example, for a democracy to work properly), there has to be a supporting (political) culture. Or such a culture must potentially exist and be waiting to be exploited.

A change of government leadership can initiate strategic changes and trigger chain reactions, invigorating the economy. An authoritarian government replacing a democratic government may, for political stability, restructure political institutions and restrict political activities, and restrict the freedom of cultural institutions. For more effective decision-making and implementation, it may concentrate power and remove certain trappings of democracy. For new national goals, it may use mass media and schools to

propagate the importance of certain values which contribute to such goals, or strengthen such values directly with a system of reward and punishment that it introduces into the government institution or encourages the private sector to adopt.

Park Chung Hee tried to inspire people to build a great nation by appealing to their national pride. He told them that it could be done with his leadership. In this task, he was helped by the consequent economic progress which gave them confidence, but he was also helped by the intense nationalism which existed in the country. Certainly, it had existed before him, but without a clear-cut direction. For example, a sense of rivalry with Japan, though it was a cause of trouble for Park from time to time (for example, in restoring diplomatic relations with Japan in 1965), worked, on the whole, to his advantage in strengthening growth-oriented values as well as unifying the country under his leadership. "Catching up with Japan" was the nation's goal, not Park Chung Hee's. But he elevated it from an emotion to a reasonable possibility.

In supporting economic growth directly, Park Chung Hee's authoritarian government worked better than the democratic governments before him, especially the government of Syngman Rhee. The national interest, if it is interpreted to mean the raising of income of a majority of the people, tended to be sacrificed to the interest of the powers that be during the Rhee period. This situation was condoned because the government was "democratically" elected. Democracy was what mattered then, not whether government was promoting the national interest. Generally, democracy does not work unless the electorate understand public issues and exercise their rights wisely. Often, a democratically elected government is captured by the interests of certain groups and does a poor job of promoting the national interest. Yet, it is often defended because its alternative would be worse and because, if it were, it would be difficult to bring to an end. For example, in the Philippines, democracy has not been working well, but Marcos' authoritarian government was worse.

Of course, not all authoritarian governments work poorly. Whether they work well or not depends on the type of leadership as well as the general political culture. In Korea, since democracy was new, instituted by the American forces which occupied after the Japanese withdrawal, the political culture of a majority of Koreans was traditional; Mencius' saying that "one who performs mental labor shall be the ruler while those who perform physical labor shall be the ruled" was more or less accepted as the natural political order. More important was, however, the leadership of Park Chung Hee, who emerged as the strong leader of the coup group. As pointed out above, the working of the Park government depended on his strong leadership and dedication to the national interest (economic growth and defense of the country from North Korea). Although the emergence of such a leader may not have been unrelated to previous historical events and the institutions and culture of Korea in the 1950s, there was no certainty, either, that they would produce such a leader. The importance of personal leadership in the course of a country's history makes it extremely difficult to judge government performance by the type of political institution.

## VII The Influence of Culture and Institutions

### a) *Cultural and Institutional Influence on Government Effectiveness*

The remaining question is why differences have arisen between Korea and Thailand in individual choice and government effectiveness. In the case of government effectiveness, many factors are involved. As discussed in the previous section, in understanding the working of the Korean government, Park Chung Hee is an important factor to consider. Sarit Thanarat, a military strongman, played a similar role in Thai development around the time that Park held power. But if Sarit was as dedicated as Park, he did not stay in power for long; he died in 1963, after about 5 years in power. Sarit's successors did not seem to be as strong as he was and may have been more corrupt. In the case of Park, he stayed in power for 18 years, and had a big impact on the government bureaucracy as well as on the course of the country's development.

Korea's government effectiveness was also due to the competency of its bureaucracy. Park may have played an important role in reorganizing government and reducing corruption, but he had to depend on the ability of the bureaucracy to plan and implement policy. This was possible only if the government could attract competent people. In this, culture and the institutional structure of government seem to have been important. The government can attract competent people if it pays well, but if it does so, it becomes too costly. The Korean government could attract competent people without making pay too high, because social prestige attached to government officials, a tradition inherited from the Yi dynasty.

Also important in making government effective was the lower level of corruption of high government officials. As argued in Section V, Park Chung Hee was an important influence in this, but it may have been also due to Korean culture, though this is more difficult to demonstrate convincingly. But one gets the impression that Korea has been more successful than Thailand in creating elites who do not let money matters dominate their decisions. The Korean elites seem to be more "fundamentalist" and dedicated to the cause they have chosen to serve (such as the national interest by becoming a high government official). This may be due to the Confucian tradition, which teaches that the noblest human goal is to become a scholar in order to perfect oneself (develop a sense of justice, for example) through Chinese classical learning, and that only a scholar can become a mandarin. Or it may be due to the suffering of the Korean War, which has remained a vivid reminder that the national interest is not a matter of monetary calculation alone. It is ironic that a country simultaneously needs "two cultures" (or two inconsistent elements in one culture): one that makes people disregard monetary considerations for a higher goal, and the other that makes the acquisition of money the overriding goal. Anyway, the former seems to have existed (or remained) more firmly in Korea.

But equally (or even more) important was the institutional structure of government.

The difference in pay between the government and private sector in Korea was not as large as in Thailand. In 1992, in Thailand, the pay at entry level was not too bad, but the difference with the private sector increased as one rose in the government hierarchy, with the officials at senior level receiving less than half what their counterparts were receiving in the private sector [World Bank (1993): 177]. The government bodies outside the Civil Service Commission could pay better (for example, the Bank of Thailand could attract and keep people because of their better pay [Yoshihara 1994: 71]), but those who worked for a ministry were on the pay scale of the Civil Service Commission, whose pay adjustment often lagged behind increases in the private sector. Furthermore, the Thai civil service is more egalitarian in the sense that it does not discriminate between recruits in pay or career path. So, when government jobs began losing social prestige, the students of the top universities began shying away from government and the graduates of less prestigious universities began to dominate among recruits. On the other hand, Korea created the higher civil service and recruited only the brightest to it by giving a tough examination. It is a sort of modern version of the mandarin examination which tested Confucian learning during the Yi dynasty.

b) *Cultural Change and Individual Choice*

In the case of individual choice, my argument is that culture is an important influence. One is born into a certain culture and internalizes it as he grows up. It shapes one's purpose in life, social behavior, religious customs, as well as the structure of preference for food, color, dress, design, music, sports, literature, etc. An indifference curve is a manifestation of that preference structure regarding two goods under consideration. Although economic variables such as income and relative prices influence one's choice, culture also influences it through the preference structure, and the influence is greater when choice impinges on one's purpose in life. But economists, and even social scientists for that matter, do not want to bring in culture, since it runs counter to their proclivity to generalize. If they do, they cannot avoid discussing the particulars of a specific culture.

If this discussion is too abstract, consider the case of the demand for garlic in Korea. Korean economists would not dispute that it is partly determined by the country's food culture. People have been eating garlic since childhood, and it is an indispensable part of Korean food. So, the demand for garlic has to take into account Korean food culture as well as economic variables such as income and prices. What is certain is that the price elasticity is much lower in Korea than in a country where its smell is abhorred, for, eating it all the time, people in Korea do not notice the smell (or if they do, they do not find it objectionable) and there are no reasonable substitutes in their mind.

Closer to our discussion, the trade-off between leisure and work is also culturally determined. In a country where a leisurely way of life is more accepted, prices and income do not have as strong an impact on the demand for leisure as in a country where work is made more important part of one's life. The cultural determination of leisure is not as clear

cut as that of garlic demand, to be certain, but it is reasonable to assume that culture can “addict” people to work or leisure as well as to such foods as garlic.

But, to understand the cultural determination of leisure (or work) within a proper context, we have to keep two things in mind. One is that culture can change over time, though, contrary to the argument of economic determinists, the course of change is not dependent entirely on economic factors. In the case of Korea, for example, its work culture seems to have become stronger after Park Chung Hee became president.<sup>22)</sup> The other is that decision on how much leisure to “consume” is influenced by the price of labor. The lower its price (or opportunity cost), the greater the consumption. One Japanese rural sociologist who toured Korean villages during the Pacific War wondered why many people did little work [Suzuki 1973: 486]. One answer is that since the price of labor was low, landlords and owner-cultivators hired landless peasants to do what they would do when the price was higher, and enjoyed leisure. So, the shift to work when the price of labor increases is not cultural change, but, when a high price of labor is sustained, it can induce change in values relating to work (or bring about cultural change). So, whether leisure orientation is the result of culture or a low labor price is difficult to say, but culture has to be factored out since the response of labor supply to price change varies from one culture to another.

The culture which affects individual choice is strongly affected by historical traditions. For example, educational culture has been historically much stronger in Korea than in Thailand. Confucianism entered Korea more than ten centuries ago and was the dominant ideology of the Yi dynasty which lasted from the late 14th century to the early 20th century. During this period, education became a major condition for becoming a government official, so the members of the *yangban* class, a relatively large class of people spread throughout the country who were eligible to take the mandarin examination, strove to get educated. The respect for education was kept alive, if not strengthened, during the Japanese period, and inherited by postwar Korea. It probably became stronger in the postwar period since the destructive Korean War had tremendous leveling effects on society and education, as the criterion for upward mobility, increased in importance.

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22) The following is Park Chung Hee’s description of the work ethic of people in the early 1960s when he took over government. He struggled to change it.

The social structure of the Yi period withered productive activities such as agriculture and labor. As pointed out before, laziness is a common feature of all underdeveloped countries. The Korean form of laziness derives from the Yangban concept, privilege consciousness and desire for unearned income. The land system of the Yi Dynasty made the Yangban class a privileged land-owning class. The landlords were only interested in collecting their rent, not in farm management. [Park 1970b: 80]

The laziest class was the upper class for whom unearned income was guaranteed . . . . The high-born sat around a stove, indulging in high talk and nonsense, boasting of their wonderful family genealogies, and stroking their beards. This was the idle Yangban life. [*ibid.*: 81]



In Thailand, however, education culture has been weaker (or the demand for education has been weaker) since the merit-based civil service is a relatively recently established institution (King Chulalongkorn began building it in the late 19th century). In the late 19th century, education was a serious endeavor only for those who wanted to be a high Buddhist priest and for a small circle of people in the royal court.

Because of this historical difference in the evolution of the values regarding education, there is still a (probably large) difference in the parents' willingness to educate their children and children's willingness to learn. In Korea, for example, to educate children has been more of parents' obligation than in Thailand. In the demand function for education, such a difference will be reflected in the numerical values of the parameters, not as an independent variable.

In Thailand as well, however, one should keep in mind that culture has been changing, faster in recent years. Far more families (absolutely as well as relatively) attach importance to children's education now than a few decades ago, as reflected, for example, in rising school enrollment ratios at all levels. And a work culture has been emerging. The leisurely pace of work in the past is gone in modern offices and factories. Looking at these changes, one wonders whether the whole argument about cultural influence should be scrapped (as neoclassical economists would urge) and whether the assumption of behavioral malleability should be adopted. But on closer inspection, cultural imprints are still observable on work behavior. This is especially so in the government sector (including government enterprises), which is not, unlike the private sector, subject to competitive pressure. First of all, as pointed out earlier, the working hours are shorter in government offices (about 35 hours per week). Work pace is also slow (people chat, read newspapers and magazines, take long lunch breaks, leave their posts for reasons not related to work, etc.); in summertime when children do not go to school, many mothers bring their children to the workplace. Because of the lack of competitive pressure, labor productivity is generally lower in the government than in the private sector, but the gap between the two seems bigger in Thailand than in Korea. Undoubtedly, as pointed out above, differences in institutional structure are one explanation, but another major explanation may be that the Thai are less "addicted" to work and can more easily keep the traditional work habit in the government sector where the (competitive) pressure for change is weak.

### VIII Further on Cultural Difference

Table 2 gives a glimpse into the difference in attitudes between Korean and Thai youths. It lists the questions in a survey conducted by a Japanese government agency, to which Korean and Thai responses differed greatly and which has some relevance to the discussion here. From the table, one can see that Korean and Thai youths differed in the degree of satisfaction with life, life philosophy, and outlook on society. The salient points of the table are as follows.

- a ) The Thais are more content with life than the Koreans (Questions A1-A5).
- b ) Probably because they are more content with life, the Thais are less willing to move to other places (Question A6).
- c ) The Koreans are more willing than the Thais to face the challenges of life and work to overcome the problems which may arise in doing so (Questions B1 and B3).
- d ) Religion is more important to the Thais than to the Koreans (Question B4).
- e ) The Thais pay greater attention to personal contributions to society than the Koreans (Question B2).
- f ) More Thais than Koreans see family position in society as a factor in social success, but they attach less importance to age as a factor in social position (Questions C1 and C2).
- g ) More Koreans than Thais think that the people of their country are diligent (Question D1).

Point e) is open to two interpretations. The importance attached to social contribution may be the result of greater religiosity in Thailand, where contribution to society, especially to the temple and monks, increases one's merit [*tham bun*] and thereby one's chance to be reborn in a higher social station in the next life. Another interpretation is that the Koreans pay less attention to social contribution because they feel that they have done enough (or will do enough). Korean society makes greater demands on people than Thai society does (for example, military service is compulsory for virtually all males in Korea).

In terms of degree of satisfaction, the difference between the countries is shown most dramatically in the response to Question A4: only 19 percent of Korean youths said they were satisfied with the way things were in the country, while 63 percent of Thai youths said they were. The gap between the present condition and what one thinks it should be can be interpreted as the driving force for Korean youths to work harder, learn more, and take risks more willingly.

Cultural differences between the two countries can be also inferred from sports competition. In the Asian Games held in Hiroshima in October 1994, Korea won 63 gold medals, the second largest number after China, and a total of 179 medals, the third largest after China and Japan. In contrast, Thailand won only 1 gold medal, 11 silver, and 13 bronze, all together 25 medals. Korea has been excelling in international sports in the past two decades. In the Asian Games held in Seoul in 1986, Korea won 93 gold medals, only one behind China but 25 more than Japan. In the Seoul Olympics of 1988, Korea won 12 gold medals out of 241 awarded. Only the Soviet Union (55), East Germany (37) and the United States (36) won more gold medals than Korea.

Korea's greater competitiveness vis-a-vis Thailand in international sports may be explained by higher income (with which Korea provides better facilities) and the financial rewards the government gives to the athletes who win international recognition. But in

Table 2 The Values of Youths in Korea and Thailand

A. Questions relating to the degree of satisfaction	Korea	Thailand
A 1. Are you satisfied with your life at home or not?		
a) Yes, satisfied.	37.7	80.3
b) More or less satisfied	30.9	10.6
A 2. Are you satisfied with your school life or not?		
a) Yes, satisfied	29.9	83.4
b) More or less satisfied	36.9	9.7
A 3. Are you satisfied with life at work? Or are you dissatisfied with it?		
a) Satisfied	27.4	55.2
b) More or less satisfied	32.5	30.5
A 4. Are you satisfied with the way things are in your country or not?		
a) Yes, satisfied	2.6	40.6
b) More or less satisfied	16.4	22.1
A 5. All things considered, are you happy?		
a) I am happy	33.0	61.5
b) I am more or less happy	48.8	30.6
A 6. Do you want to continue living in this same place?		
a) Yes	41.4	67.7
b) I want to move	35.0	18.1
B. Questions relating to life philosophy		
B 1. Here are two kinds of jobs. If you had to choose, which would you prefer?		
a) A tough, busy job, but one that gives me responsibility and authority	83.7	50.0
b) A job without responsibility and authority, but that is easy to do and does not push me too much	16.2	47.8
B 2. Which of the following comes close to describing your feeling about the connection between your life and society?		
a) The most important thing is to make my life fulfilling	68.9	26.7
b) That alone is not enough. I also want to be of use to society	31.1	71.6
B 3. Suppose you are dissatisfied with society, what attitude do you think you would take? Please choose one answer from the card.		
a) I will exercise my right to vote but nothing more	20.2	58.2
b) I will actively resort to a variety of measures, such as petitions, letters of complaint, demonstrations, strikes, etc., as long as the means are permitted by law	52.7	35.2
B 4. How important do you think religion should be in life?		
a) Very important	24.5	80.1

Table 2 — Continued

b ) Somehow important	35.9	16.3
C. <i>Questions relating to one's own society</i>		
C 1. Which of the following do you think are important for becoming successful? Please choose two from the card.		
a ) Family position and social rank, parents' social status	18.7	36.1
C 2. What do you see as the preferable method for deciding on promotions and salary increases? Please choose one answer from the card.		
a ) Mainly by seniority, but performance considered	40.3	10.0
b ) Only by performance	9.4	40.9
D. <i>Questions relating to perceptions of one's own country</i>		
D 1. I would like to ask you how you see your country. Please look at this card and select the terms that you agree with.		
a ) Diligent	63.3	34.8

Source: [Management and Coordination Agency 1994].

Note: The first survey was made in 1972, and since then, it has been conducted every five years. The above figures were taken from the fifth survey, conducted in 11 countries between February and June 1993. Respondents aged between 18 and 24. The questionnaires in Thailand were in Thai and those in Korea in Korean. The Korean survey was conducted by Korea Survey (Gallup) Polls Ltd. and the Thai by CSN & Associates Co. Ltd. (Gallup). The sample consisted of 1,000 persons in both countries.

1970, when the difference in income was still small between Korea and Thailand (remember it was not until 1968 that Korea surpassed Thailand in per capital GNP), in the Asian Games held in Bangkok, Korea won more medals than Thailand (Korea's 18 gold, 13 silver, and 23 bronze medals, vs. Thailand's 9 gold, 17 silver, and 13 bronze medals). A host country usually does well, but despite that, Korea did better than Thailand. This was before the Korean government passed a law to promote sports, as one measure of which the government was authorized to give money to outstanding athletes (the law was passed in 1972).

International competitiveness in sports and business is not the same, since the former directly involves only a tiny minority of the population, whereas the latter involves a much larger portion. What is true about such a small number of people may not apply to a larger proportion of people, but the two may not be entirely unrelated since the same culture may be operating on both sports and business. Remember that the sports culture which produces good athletes emphasizes competition, winning, self-discipline, hard work, perseverance, fortitude, and teamwork (although this last one is not true of all sports).

Interestingly, these are the values which are important also in academic as well as business competition. Korea's success in creating industrial capitalism depended, for one thing, on absorption of new skills and technologies, which may have been possible because

Korean scientists, engineers and technicians had a culture similar to that prevailing in sports. As in sports, Korea has done well in international skill competition; until the mid-1960s it was Japan and a few European countries which dominated the International Vocational and Training Competition (popularly known as "skill Olympics"). But the situation changed in the following decades. Korea began participating in 1968, as part of promotion of technological skills under the direction of President Park. In 1968 and 1970, Korea won the third largest number of gold medals; in 1973 and 1975 (the competition has been held every other year since 1971), the second largest number; and from 1977 to 1995, except 1993, the largest number. In 1993, Taiwan did better, but Korea won 12 gold, 3 silver, and 5 bronze medals, ranking second in overall performance. In contrast, Thailand won no medals.

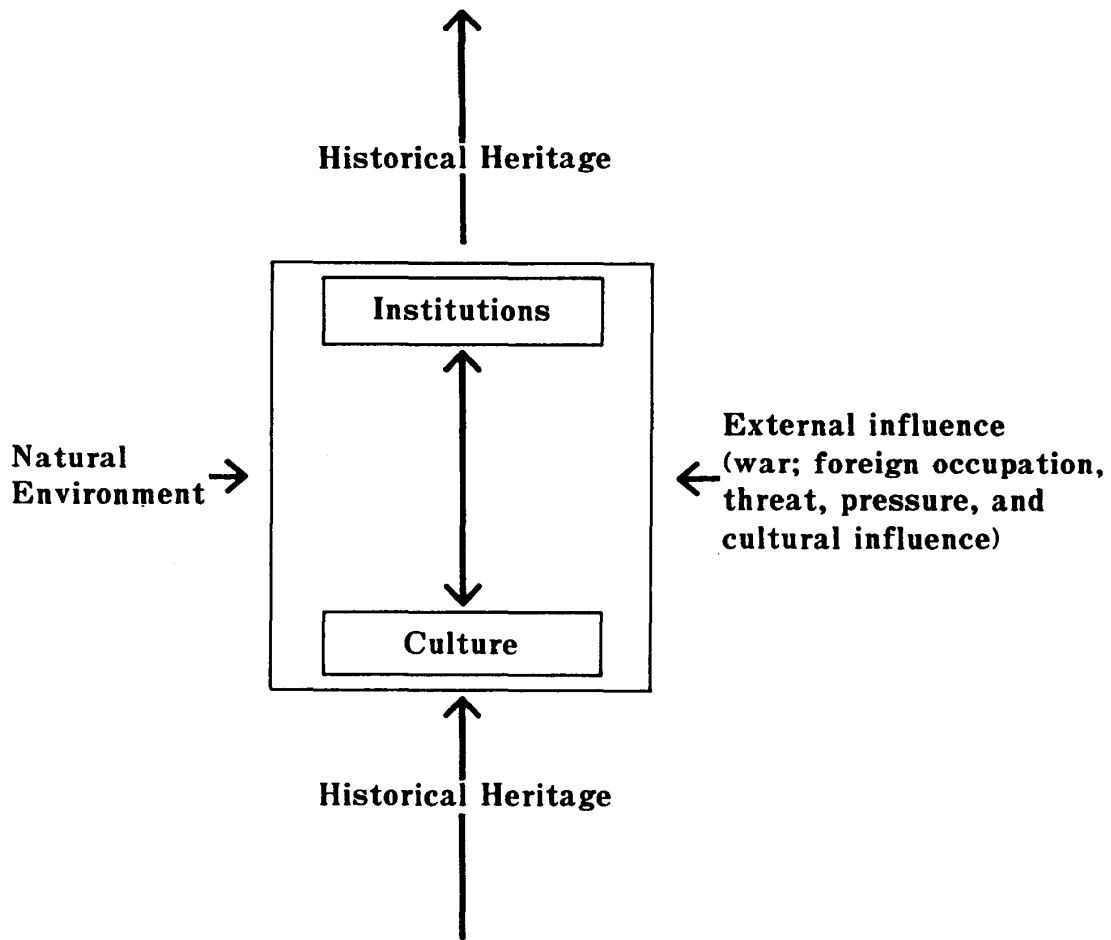
The general level of technological mastery is more difficult to determine, but Korea seems to have done well in this regard as well, judging from its ability to upgrade the technological content of its exports. The type of culture which made Korean athletes internationally competitive seems to have operated also over Korean technicians and engineers. More broadly, it may have been part of a national culture.

In Korea one often hears such terms as *igyora* (win!), *hamyon toenda* (can do), *uiyok* (will), *ogi* (reluctance to admit defeat), and *ugida* (persist). These can be contrasted with the terms which are often cited to characterize Thai culture: *sabay* (comfortable), *sanuk* (fun), *saduak* (convenient), *choei* (indifference), *caiyeu* (coolness), *kreengcai* (shy), and *bua laeu* (bored). One might be able to characterize Korean culture as competitive, but such characterization is difficult to make for Thai culture from the terms listed above. From those terms one rather gets an impression that Thai culture discourages people from aggressive competition. But it should be kept in mind that these are broad characterizations and Korean culture contains integrative elements, just as Thai culture contains competitive elements.

## IX How Has the Difference Come About?

The present difference between Korea and Thailand in culture and institutional arrangements can be understood as due to a difference in historical heritage. The present culture and institutions of a country are handed down from the past. They may change today, and if so, a new set of culture and institutions will be handed to the future generation. This is represented by the vertical arrows in Fig. 5. But how do they change today? This question is also related to how they came into existence in the past.

I cannot answer this question satisfactorily; I can only offer certain things to keep in mind in trying to answer the question. One is that changes can take place internally. They may come about through such economic changes as technological progress, workplace reorganization, urbanization, industrialization, and economic growth. For example, the spread of television (a new technology) changed people's values, attitudes, and beliefs,



**Fig. 5** Factors Affecting Institutions and Culture

which, in turn, promoted the market economy and a democratic type of political institution. The Marxists regard the non-economic institutions and culture as the superstructure of “the mode of production”—a theory called historical materialism. Neoclassical economists tend to be also economic determinists by believing that non-economic behavior (or behavior that is normally so regarded, such as marriage) can be explained by the theory of rational choice (thus, for example, if the family institution changes, this is because people adjust to economic changes).

But government change may come first quite independently of economic change, and it may influence other institutions, particularly economic and cultural institutions. As pointed out earlier, the coming of Park Chung Hee to power is an example of this, though why he could assume power in 1961 and become a strong leader cannot easily be explained. Of course, it did not have to be him, but if it had not been him, it is uncertain how subsequent history would have evolved. Certainly, his emergence as a leader was not unrelated to the situation around 1960 (that is, democratic governments were not working well, so that

people were willing to accept an authoritarian government), but this was not the sole determinant. At best, he was one of many possible leaders that a keen contemporary observer of the Korean political scene could have come up with. The rise of a particular political leader and his style of leadership cannot be explained without taking particularistic factors into consideration. So, the particulars (such as Park's personality and the characteristics of Korean military leadership around 1960) played an important role in setting in motion Korea's cultural and institutional change in the 1960s and thereafter. It is only the comforting delusion of rigor to think that leadership change can be explained in a "scientific" manner.

Kim Il Sung also brought about government-initiated change of institutions and culture in North Korea. Both North and South Korea had the same historical heritage until around 1945, but the Korean Peninsula was divided politically along the 38th degree of north latitude and the northern half came under control of the Communist leader. In the following decades, the two Koreas have evolved differently. It is easier to identify such institutional differences as the market economy vs. planned economy, but cultural difference has also resulted. For example, the values which support the capitalism of South Korea must be either weak or missing in North Korea, as inferred from the problems Germany is facing in introducing capitalism in former East Germany.

Kim Il Sung's rise to power, which triggered cultural and institutional change in North Korea, can no more be easily explained in terms of a neat theory than can Park Chung Hee's. In the case of culture-institution and inter-institutional interactions in North Korea also, it is the particulars which need to be explained.

Another important influence on culture and institutions comes from outside the country, as shown on the right hand side in Fig. 5. Thailand has had no foreign occupation in its recent history, but Korea has (Japanese occupation from 1910 to 1945, American occupation from 1945 to 1948, and if North Korea is considered a foreign country, its occupation of a large part of the country for a few months during the Korean War). Foreign occupation directly changes institutions, and some of the changes are kept even after the end of occupation. On a more subtle level, foreign influences are felt on culture. Many young people go abroad (especially to the West) to study, many people read foreign print media and watch satellite TV programs, see foreign movies and videos, and interact with foreign people directly. In the past, foreign religions and ideologies (in particular, Buddhism, Confucianism, Christianity, and Marxism) penetrated the country, and some of them had a large impact on its culture. In addition, a government may have to change an institutional arrangement (for example, a trade regime) because of foreign pressure.

In recent history, external threats have had a much smaller impact on the culture and institutions of Thailand than they have on those of Korea. The major external threat to Thailand in the postwar period was the spread of Communism in neighboring countries. The Communist movement being international, Communist insurgents in Thailand were assisted by their comrades in China and Indochina. The Thai government had to deal with

them, but this was not so serious and long-term as the threat of North Korea to South Korea. In the early 1950s, it was not just a threat for South Korea: in June 1950, the country was actually invaded by North Korean troops.

The war was devastating. In the first few months, the North Korean troops occupied all South Korea except for a small enclave around Pusan, the second largest city at the southern tip of the peninsula. In October, the North Korean troops were pushed back to their country by United Nations troops, but they came back again and captured Seoul for the second time in January 1951. They were driven back again a couple of months later, and the war ended in a stalemate along the 38th parallel of north latitude. About two years later, in July 1953, the Armistice was signed. South Korea did not lose or gain any territory, but it lost about a quarter of its wealth and half a million lives. In addition, over 700,000 were wounded, and about 85,000 persons were taken to the North [Mason *et al.* 1980: 40; Kim Hak Joon 1989: 277-278].

The war was a severe blow to the economy at that time, but it had some positive effects, which one should keep in mind in trying to understand the evolution of the economy since the early 1960s. One is a leveling effect on Korean society, which probably contributed to the strengthening of a competitive culture. Another is that the war made the people strongly anti-Communist. The soft-hearted attitudes toward Communism before the war lost ground after people experienced the brutality of the Communist invaders. The third, which is somewhat related to the second, is that security became an overriding national objective. It sometimes conflicted with the objective of economic growth (for example, economic rationality could not be applied to the defense industry), but, since poverty was fertile ground for Communist propaganda and wealth was required to strengthen the military, economic growth became an urgent goal. Furthermore, people in general, having experienced firsthand that the government was the pillar of the country during the war, were more willing to let the authoritarian government run the country as long as it was making the country strong and prosperous. Finally, the war caused a large inflow of refugees from the countryside (initially supported by American aid) and made the rate of urbanization high for the level of development, which weakened traditional constraints on the emergence of a culture more compatible with the spread of the market economy and industrialization.

The natural environment, shown on the left hand side of Fig. 5, is another important factor to consider. True, the environment does not change much at the present time, so that it is unlikely to influence cultural and institutional change, but it was important in the creation of the culture that has been passed down to today. As shown in Table 2, Thai youths are more willing to accept the present situation as it is. Cultural anthropologists point out the same characteristic for the Thai population as a whole. This characteristic is usually attributed to Theravada Buddhism, which teaches that one's present situation is the result of one's karma inherited from his previous existence. But a more important influence may be the environment, which may also have influenced the religion the people



accepted. On these points, the Thai scholar Phya Anuman Rajadhon says that the Thais are lethargic because of the tropical climate and that Theravada Buddhism, which teaches the virtues of a quiet life, was accepted because it suited the lethargic Thai lifestyle [Anuman 1988: 46, 51].

The tropical climate seems to impose a considerably greater burden on the body if one tries to work in Thailand the same number of hours (with the same intensity) as one can in Korea. The average monthly temperature in Thailand is around 30°C. During the five-month rainy season, it goes down a few degrees, but humidity goes up to over 75%, and work is no less tiring than during the dry season. In Korea, however, it is only in July and August that the average monthly temperature goes up as high as 25°C, and it often goes below freezing point in December, January and February. The Korean climate seems less inhibiting to work. This climatic difference seems to account for the difference in work-oriented culture and to make it difficult for the Thai as work-oriented as the Korean, even if the Thai government were to try to change the country's value system.

To obtain food was not difficult in Thailand, and this fact seems to have also influenced the formation of its culture. The climate is good for production of rice, the staple food of the country, and abundant land was available. Peasants broadcast rice seeds at the beginning of the monsoon, and were usually able to harvest a plentiful crop without devoting much time to their rice-growing. If necessary (especially in the Northeast where land is not so fertile as in the Chao Phraya basin), the harvest was supplemented with the meat of small animals, fish, insects, edible plants, and fruits found in the fields, rivers and forest. In the 13th century, King Ramkhamheng said that "In the water there is fish, in the fields there is rice." This statement is often taken to symbolize the country's fertility and freedom from hunger. After modern medicine was introduced and population density increased, the food situation began changing, but compared with other Southeast Asian countries, such as Java and the Philippines, land scarcity was not so serious in Thailand until recent years.

The situation was very different in Korea. A cold winter made food production (and procurement) difficult. Rice was planted for the summer season, and less nutritional crops such as barley for winter. Until the late 1960s, many peasant families suffered from food shortage before winter crops could be harvested in spring, because the previous fall's rice harvest was usually inadequate. There was once a term for this shortage, *ch'un gung* (spring famine). The Ministry of Agriculture and Forestry announced in 1960 that about one million peasant households were facing such a situation [Cho 1991: 191]. In order to avoid starvation, Korean peasants had to work diligently and give a great deal of care to food production (as reflected in such practices as transplanting, water control, and weeding). In winter, the food they had was basically what they had kept in storage from the harvest before winter; they could not find food in the nearby fields, rivers, and forest as easily as the Thai peasants could. A severe environment for food production and procurement seems to have encouraged diligence and planning in Korea.

Another disadvantage of hard work in a tropical climate was that people could more easily get sick and die. The hottest season of the year (March, April, and May) was known as the cholera season in Thailand, during which many people used to die. Another killer disease was malaria. Compared with foreign residents and immigrants from a temperate climate (a large number of Chinese died, for example), the indigenous Thais had more resistance to tropical diseases, having built up antibodies through earlier exposure, but since they were by no means fully immune, it was better not to tire themselves out. Not to exert themselves much at anything was possibly their health insurance. But this became a less important factor with the introduction of modern medicine and public health measures.

In a tropical area, since there is cultural variation, one cannot become an environmental determinist. Some values which characterize Thai or Korean culture cannot be explained by the environment alone or are not related to it directly. The point is rather that the environment is a factor influencing culture. Such cultural characteristics as competitiveness and achievement orientation, which entail hard physical or mental work, can be emphasized more easily in a temperate climate, where they are less demanding on the body, than in a tropical climate.

The willingness to work and study hard or compete with others fiercely for money and power was possible in a natural environment such as Korea's. Modern science and technology has weakened the constraints of the environment, but has not yet eliminated them. In Thailand, immigrants can have a stronger work ethic than the indigenous Thai, but over generations, they also get affected. At issue are the Thai and Korean cultures which have been formed in a slow process over centuries. If two climates (or more broadly, natural environments) are similar, they can be ignored, but if they are quite different (like tropical and temperate climates), they are an important factor to consider. We have ignored the interaction of culture with the environment (or to be more precise, the effect on culture of the experience of people's interaction with the environment). For example, economists still generally ignore the environment in explaining the vigor of Northeast Asian economies and argue that Southeast Asian economies have the same potential, but the two regions differ in people's willingness to study and work, without which the higher level of income some Northeast Asian countries are enjoying cannot be explained. Diligence has become part of the culture of Northeast Asia under the condition or pressure of the environment, and a temperate climate has been its *necessary* condition.

## **X How important was Confucianism?**

What advantage did Korea enjoy in promoting economic growth because its major religion was Confucianism instead of Buddhism? Two positive effects have already been mentioned. One was on education, and the other was on the structure of government. In the Confucian scheme of things, only the educated can run the government as agents of the sovereign, and only those who pass the higher civil service examination should be allowed to become the

sovereign's agents. This encourages education, and renders government effective by making elitism a natural order in the government.

One other effect, which has not been discussed, is on the family. According to the Confucian social order, the family is the basic social unit, so that if one makes the family a harmonious and prosperous organization by fulfilling one's roles (which are ascription-based and often take the form of duties to perform), he is fulfilling his most important obligation. Anyone who is doing so will adjust to society since a social organization is a family writ large. The basic social tenet of Confucianism is "family-ism," a doctrine which makes the family, rather than the individual, the core of society.

The Confucian family norms have been criticized as anti-individualistic, chauvinistic, and too traditional, but one has to remember that the family is the most natural institution which produces, nurtures, disciplines, socializes, and educates (directly or through financing schooling) children. After all, children are an investment in the future. So, if society is to prosper, it needs an ideology or culture which makes a strong family to fulfill these tasks, since they are not likely to be fulfilled well by other institutions. Confucianism played such a role in Korean society. Parents' willingness to educate children (as seen from the fact that they are willing to finance a large burden of educational costs, as pointed out in Section IV) cannot be explained without taking into consideration their strong commitment to the well-being of their children, particularly sons, who are the carriers of the family name in the next generation.

Did Confucianism then play the same role as Protestantism did in the West, as Max Weber argued.<sup>23)</sup> Weber posed the question for China several decades ago, and answered it negatively.<sup>24)</sup> But in recent years, many people, seeing the dynamism of East Asian economies and Confucianism as the common religion in the region, have argued à la Weber that Confucianism was the causal factor of the region's economic dynamism. Did Weber turn out to be wrong? If he meant that capitalism would not grow in East Asia, he was wrong. But this is not what he meant. What he argued is, as stated above, that Confucianism *could not play the same role in bringing about capitalistic development in China as Protestantism did in the West* [italics added].

The outline of Weber's argument is as follows. He started with the assumption that man is the agent of economic change (capitalistic development). If so, the question is what changes his behavior. He argued that the prime cause of behavior change, which set in motion capitalistic development in the West, was the rise of Protestantism (to be more specific, ascetic Protestantism such as Calvinism). In his view, it brought about a "mental revolution" by making God's command the overriding guide of life. The command, communicated through the Bible directly, was for man to do his utmost in whatever job he

23) For his argument on Protestantism, see Max Weber [1958].

24) See Max Weber [1951]. C.K. Yang's introduction to this book, written in 1963, gives a good summary of Weber's contrasts of Protestantism with Confucianism.

was doing because it was God's "calling." Whether he was doing so or not could be measured by how successful he was in his job. Being a sinful being, man was almost certain to receive God's punishment in next life, but he could obtain salvation if he succeeded in carrying out God's "calling" in this world. Since a good Protestant feared God's punishment, he did his best to gain salvation by adopting the values which would render him successful. Very important among these values were ascetic values such as diligence and frugality, the very values which brought about capitalistic development. In contrast, according to Weber, Confucianism could not bring about such a mental revolution. It had existed in China for about two thousand years, yet capitalism had not developed. Confucianism had become a conservative doctrine, having become part of Chinese society. Therefore, it would not be able to play a revolutionary role in future China. This is the reason why his conclusion on Confucianism was negative. The same argument can be made for Confucianism in Korea and Japan, where it was introduced and spread many centuries ago.

The different roles Confucianism and Protestantism played in the countries where they were adopted become clear if the reading matter of the agents of change (political leaders, entrepreneurs, etc.) is compared. For inspiration and guidance, the Protestants read the Bible, but the agents of change in Korea did not read Confucian books if the period of change is taken to be postwar. In Japan, since modernization began almost one century earlier, the influence of Confucian books was larger, but over time, it declined. What they read became increasingly the writings of Western authors as well as national authors who came under a modernizing influence.

If Weber is right in thinking that a "mental revolution" is necessary for economic development, what brought it about in Korea? If there is an ideology involved, it is what I'll call a "development ideology," the ideology that one can make life materially better. One has to bear in mind that, while the West was pioneering capitalistic development and may have needed an ideological force which would bring about a "mental revolution" and create a new society on its own, non-Western countries had the West as an example to follow. In the case of Korea, the West and Japan showed its people what new things could be done with life, which began changing their conception of life. This began affecting some of the country's elites in the mid-19th century, then spread to the better educated, and finally to the masses. Thanks to the spread of education and mass media, the masses began understanding that other people were leading a better life and asking why they could not do so. Television in particular has been a vivid, constant reminder of the gap between reality and possibility.

One more important factor is that Korean society began changing. Some may think that the logic of this is reversed, since it is society whose change is to be explained as the consequence of individual behavior change. But if someone with the development ideology takes over government (as Park Chung Hee did), he can set social change in motion by carrying out institutional reforms and propagating the development ideology. President

Park was keenly aware of the importance of the latter.

While our economic foundation was being put into good shape, I proposed an ethical code of conduct and exhorted the people to follow this code in their daily lives. My intention was to help establish the spiritual underpinnings necessary for the creation of a brighter society. For I realized that no purely welfare society would be able to function without a spiritual revolution, or without diligence, thrift, self-support and mutual assistance. [Park 1971: 184].

No less, or even more, important is something invisible and metaphysical, something incorporeal. Development and construction of such a spiritual side also have to be pursued along with our modernization movement and construction work. Only with such a spiritual side of construction attained can we achieve real modernization and real economic construction which are indeed valuable and significant. [Shin 1970: 347].

President Park's moral campaign for development was made easier by the destructive Korean War, which weakened traditional forces, the threat of the North after the war, and a historical rivalry with Japan. By appealing to people's fear and pride, President Park urged them to change their behavior so that the country could become rich and strong. But probably more important was his ability to restructure institutions for economic development and create a new economy and nation. Without this, his moral campaign would have been nothing but rhetoric.

So, if there was anything in Korea comparable to Weber's Protestantism, it was the development ideology. It had been spreading gradually for several decades before the 1960s, changing the attitudes of people, but the pace of change accelerated after Park Chung Hee took over government and launched cultural and institutional changes necessary for industrialization. The government promoted it as part of national policy, but for people, it was primarily the desire to improve their economic life, though nationalistic sentiments may have contributed to it.

A similar change has been taking place in Thailand, but Thai values have changed more slowly than Korea's. For one thing, a tropical climate is less favorable for the rise of ascetic values (especially diligence and frugality). Also, traditional forces are stronger in Thai society because of the historical continuity and the greater role religion (Buddhism) plays in Thai life. Without recognizing value change, however, one cannot explain the vast economic change which took place in Thailand in the past few decades. In this case also, the value change (or cultural change) was not brought about by religion. As in the case of Korea, it was the result of the spread of the development ideology, which was made possible by the spread of education, mass media, urbanization, and government direction.

## XI Concluding Remarks

This paper is an outline of my understanding of why Korea has grown faster than Thailand since the early 1960s. Both Korea and Thailand have been market economies, but Korea's has been more government-directed than Thailand's. Libertarians might argue that the faster the economy has grown, the less the government must have intervened, but, though this may be true over a long-run, it is not necessarily true over a period of a few decades, as this comparison of Korea and Thailand shows. To "get prices wrong" works under certain conditions, because it can facilitate industrial restructuring, which is a *sine qua non* for sustaining economic growth.

Korea's faster growth was explained first as the consequence of the individual choice which influenced production functions favorably. Adjustment having been made for income and prices, a) the Koreans have been more willing than the Thais to trade work for leisure; b) the Koreans have been more willing than the Thais to take risks (in this case, for the same expected income); and c) the Koreans have had greater preference than the Thais for education. These differences were explained in terms of differences in culture.

The rise of Park Chung Hee was a triggering factor for Korea's growth. The government became more effective in supplying public goods and more capable of intervening in the economy. Government intervention was necessary for industrial restructuring, which was, in turn, necessary for sustaining economic growth. Neoclassical economists tend to give the impression that the performance of the market economy is all that counts in economic growth, but the performance of the market economy depends on the effectiveness of government in supplying public goods. One Korean lesson is that government performance counts in long-term economic growth.

In Section VII, I tried to explain how the present culture and structure of institutions, which influence economic performance, have come into being and how they change at the present time. The culture and institutions of a country can change in adjusting to each other or because of leadership change, but it is also important to bear in mind external pressure and the natural environment as sources of change or constraints against it. The present culture and institutions of a country are what it inherits from the past and will be handed to the future generation after certain change. The difference in climate and the Korean War were two important influences noted.

Confucianism was an important supporting factor for Korea's growth (strengthening the family, making the government effective, and making education important), but it did not play a pivotal role as Protestantism did in the West (assuming that Max Weber is right). If there was any religion or ideology in Korea similar to Protestantism in the West in bringing about a "mental revolution," it was the development ideology which has been spreading since the mid-19th century, but which became more important in the postwar period, particularly since the early 1960s when Park Chung Hee became President.

After a little over three decades of high growth, Korea is on the verge of becoming an industrial country (Korea applied recently for membership in the Paris-based Organization for Economic Cooperation and Development, a club of industrial countries). Since it was Park Chung Hee who put the country on a high growth path, the political leaders of other countries may think that they can be equally successful. But Park inherited the natural and geopolitical environments, culture, and institutions which he could use to his advantage. Other political leaders are less fortunate. For them, Thailand may be a better country to take as a model. Though it shares many things in common with other developing countries (a tropical climate, a low functional literacy, etc.), its economic growth has been one of the highest in the world (the growth rate of per capita GNP was 4.4 percent per annum in the period 1965-1990), and its per capita GNP is now above \$2,000.

The major implications of this comparative study for the theory of economic development are that a general theory cannot be but imprecise and that, if we want to understand a country's development better, we need to bring in factors more specific to the country. The neoclassical approach may rigorously explain the relations among economic variables, but in economic development, the parameters of those relations have to be explained as well, for they are the ones which define the economy. This study discussed institutions, which affect the parameters through shaping the incentive structure of the economy. In order to understand how institutions work, however, since they are the formal ways things are organized, we must know the particulars of the country which influence the behavior of people who man the institutions. But because of their nature, they do not easily yield to a general theory. The best we can hope for is to obtain a broad picture for how institutions work under different settings and how this affects economic performance. With more comparative studies, we may be able to narrow it down, but it is difficult to come up with a useful general theory of institutions because it is the particulars which determine the working of institutions. The particulars emphasized in this paper were culture and political leadership.

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